EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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MIDDLE EAST
Arab hardliners on the defensive
Page 6

World News

Lost city of Rameses 'found' in Nile delta

A castle-like fortress found buried under the mud and sands of Egypt's eastern Nile delta could be the lost city of Rameses, the place from where Moses led the Israelites out of Egypt.

Ahmed Osman, an Egyptian author and historian based in Britain, said he believed the ancient city had been unearthed by an archaeological team at El Qantara, Sinai, 50km north-east of Qantir.

Yeltsin debate call

Radical deputies from Moscow, led by Mr Boris Yeltsin are demanding that the Soviet Union's new super-parliament, the Congress of People's Deputies, should debate the entire economic and political crisis. Page 2

Afghan peace offer

President Najibullah launched a fresh drive to end the Afghan war, renewing peace overtures to Moslem rebel leaders and again offering the country's exiled former king a role in a settlement.

200 Gaza arrests

The Israeli army said it arrested about 200 members of Hamas, the Islamic Resistance Movement, in the Gaza Strip and accused its spiritual leader of ordering the killing of Arabs suspected of helping Israel.

MiG flown home

A front-line Soviet MiG-29 fighter, landed in Turkey by a wounded defector, was flown back to the Soviet Union yesterday while officials discussed the pilot's request for asylum. Page 2

Jordan frees rioters

Jordan freed 13 people seized during price riots last month, but an estimated 59 political suspects remain behind bars.

Shamir threat

Israeli Prime Minister Yitzhak Shamir threatened to resign if his Likud party threw out his proposals for Arab elections in the occupied West Bank and Gaza Strip.

Marcos critical

Ferdinand Marcos, the former Philippine president, is more alert but is still in a critical condition with kidney failure and a massive infection in his Honolulu hospital.

UK ports move

UK port employers are considering taking legal action against union shop stewards who are threatening to organise unofficial action in the current national docks dispute. Page 7

'New Greece' call

Greek Prime Minister Andreas Papandreou launched his campaign for a third term with a call to the electorate to back his fight for a "new Greece".

Campfire explosions

A campfire lit by French soldiers on manoeuvre in West Germany apparently set off World War Two explosives in the ground, killing one soldier and injuring 11 at Grisheim on the Rhine.

At least 7 die in lift

A hospital lift packed with visitors fell eight floors into a basement killing at least seven people in the Spanish town of Llobregat.

Agents missing

Six US anti-drug experts were aboard a light aircraft which went missing on a flight from Peru's major coca-growing area to Lima, the capital.

Freight trains collide

Two freight trains, one laden with highly flammable propane, collided in the capital of Soviet Kazakhstan, Alma Ata, and a explosion that followed destroyed factories, 13 houses and killed an unspecified number of people.

Bourn again

More than 600 children who began life as test-tube babies attended a celebration party at Bourn Hall, near Cambridge, England, where the were all conceived.

Business Summary

US steps up pressure on Japan over trade

JAPAN should be named as a priority country adopting unfair trade practices against the US and facing possible retaliation, Mr Robert Mosbacher, Commerce Secretary, argued over the weekend ahead of an announcement also expected to include Brazil and India. Page 20

EUROPEAN Monetary System: Attention last week focused on the strength of the dollar against the D-Mark as currencies within the EMS showed little overall change against each other. The West German Bundesbank decided not to increase key lending rates at its meeting on Thursday, and this put further downward pressure on the D-Mark against the dollar. Nevertheless, the German unit remained the most improved currency from fixed central rates, and all currencies were trading comfortably within their divergence limits. The Italian lira finished the week on a relatively quiet note, and showed little reaction to news that the Italian Prime Minister had resigned. Currencies, Page 38

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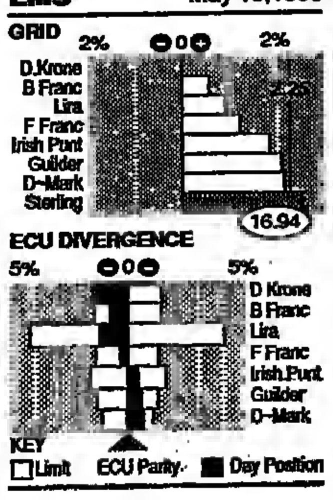


The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

TOTAL Marine Norsk, Norwegian unit of Paris-based oil company Total-CFP, failed in court to stop Aker, big Norwegian industrial group, from disposing of its 20 per cent stake in Saga Petroleum, the country's largest independent oil company. Page 24

PERNOD Ricard, French drinks group, has acquired a majority stake in Orlando Wines, Australia's second largest wine company. Page 24

SINGAPORE Airlines, the island's flag carrier, showed record net profit of S$885.2m ($303m) in the year, up 63.5 per cent because of higher traffic, improved yield and lower fuel prices. Page 24

BANQUE PARIBAS (Suisse) is taking over Banque Louis-Dreyfus en Suisse under an agreement with Banque Bruxelles Lambert (BBL) of Belgium. Page 23

CAP Gemini Sogeti (CGS) reinforced its position as Europe's leading computing services group in 1988 with revenues of FFr8.8bn ($902m), up 39.3 per cent. The results included a full year's contribution from Sesa of France, which CGS acquired at the beginning of 1988. Page 24

NIPPON Shinpan, Japan's largest consumer credit company, showed an 11.8 per cent increase in profit to Y26.45bn ($197.1m) for the year to March after the value of credit sales handled in the year rose 23.5 per cent. Page 24

MITEL, Ottawa-based telecommunications equipment maker controlled by British Telecom, has returned to profitability for the first time since 1983. Page 24

RHONE-POULENC, France's biggest chemical and pharmaceuticals company, unveiled a 30 per cent increase in operating profits for the first three months of 1989, confirming the good conditions for many of Western Europe's chemicals businesses. Page 24

EUROPEAN Commission's three-month-old plan for the 12 EC states to adopt a 15 per cent minimum withholding tax on bank and bond income was informally laid to rest over the weekend. Page 4

Chinese continue to defy leadership as troops close in

By Peter Ellingsen in Peking

DEMONSTRATORS in Peking's Tiananmen Square were last night expecting troops to try to expel them from the square under the martial law imposed by the beleaguered Chinese Government.

Buses and trucks donated by workers blocked the main approaches and tanks, armoured personnel carriers and thousands of troops were stationed on the outskirts.

Helicopter gunships flew low over Tiananmen Square all weekend and army units in the region were put on alert. Apart from an incident when police beat about 40 students who were stopping troop trucks from crossing a road in the north-west, no serious clashes were reported.

Conflicting statements were released by official bodies. The Martial Law Enforcement Headquarters said troops had been "somewhat blocked" from enforcing martial law declared on Saturday but would carry out their orders.

"The troops imposing martial law must firmly carry out orders of the government and they have the duty to adopt very effective measures to put an end to the situation," the statement, broadcast on radio and television and by the New China News Agency said.

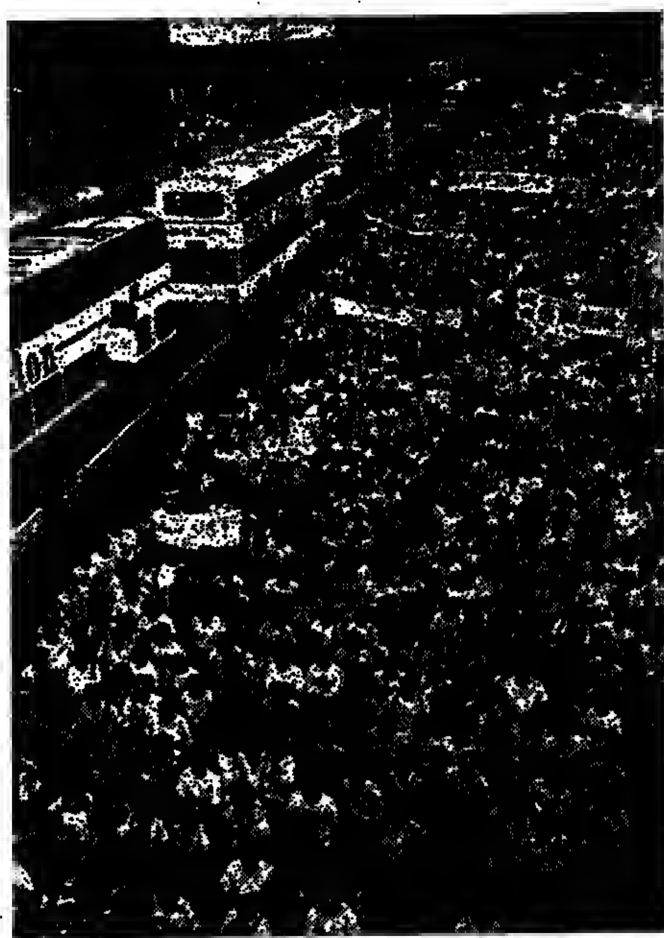
A later television broadcast quoted a Peking city government spokesman as saying that rumours that the army would move into Tiananmen Square by 5am local time today were not true.

Chinese radio and television also quoted Nie Rongzhen, a 90-year-old former marshal of the People's Liberation Army, as denying rumours sweeping Peking that Premier Li Peng had ordered the square cleared by that time.

China's ruling Communist Party is deeply divided and facing the biggest crisis since the People's Republic was declared in 1949. Students who on Friday ended their one-week hunger strike said they would continue a sit-in at the square until the Government agreed to a televised dialogue.

Senior leaders appear to be facing the options of backing down, resigning or trying to convince security units to use force. Authorities have repeatedly called for calm and

Continued on Page 20
Crisis in Peking, Page 3



Chanting demonstrators jam the streets of Hong Kong's Wanchai district in support of Peking's pro-democracy struggle

Students' supporters paralyse Hong Kong

By John Elliott in Hong Kong

THE PEKING students' movement yesterday spread to the improbable venue of the centre of Hong Kong.

There for eight hours a massive demonstration of up to 1m people halted traffic and turned the revered Jockey Club racecourse into a protest rally and carnival.

"Li Peng resign," "Deng withdraw" and "Oppose Army power" were the basic messages. They were chanted along with patriotic Chinese songs by students, trade unionists and other supporters as they marched peacefully through the prosperous British colony whose basically apolitical population is fearful of its fate after it returns to Chinese sovereignty in 1997.

This was the culmination of weeks of small marches and hunger strikes by students in support of the Peking demonstrations. On Saturday night 50,000 marched through lashing gales.

Yesterday's demonstration

Continued on Page 20
A taste of political street power, Page 3

UK backs early start to work on Delors first stage

By David Buchan and Peter Bruce in S'Agaro, Spain

MR Nigel Lawson, Britain's Chancellor of the Exchequer, joined other European Community finance ministers at the weekend in agreeing to an early start to work on the first stage of the Delors report.

The first stage includes commitments by EC finance ministers and central banks to co-ordinate budgetary and monetary policies more closely, and participation of all currencies, including sterling, in the European Monetary System.

But Mr Lawson flatly ruled out revision of the EC treaty, as insisted on by Mr Jacques Delors, the Commission President, though "we are very keen to see what can be done within the context of the existing treaty."

A revision of the treaty would be necessary for any move to the federal European central banking system envisaged in the second and third stages of a transition to monetary union as proposed by the Delors report.

Mr Lawson, at an informal meeting of EC finance ministers on Spain's Costa Brava, insisted "there will be a time" when the UK would join the EMS. "It is not a question of whether, it is a question of when," he said.

The finance ministers presented their heads of government with key ambiguities to resolve at the Madrid summit in late June, the next round in this intensely political tug-of-war over Europe's monetary future.

Mr Lawson said he had no quarrel with the consensus view, expressed by Mr Carlos Solchaga, Finance Minister of Spain which currently holds the EC presidency, that the Madrid summit should consider whether to summon an inter-governmental conference by the Twelve. Such a conference would be needed for treaty revision.

"The more these matters are discussed, the more the problems will become evident," Mr Lawson said. By this he appeared to be trying to leave the UK Government some room to manoeuvre in the next few months despite its outright rejection of the report when it was published last month.

"Some might say Mr Lawson has committed himself to

Continued on Page 20

Bush warning to West of complacency

By Lionel Barber in Boston

PRESIDENT George Bush yesterday warned that growing complacency was threatening the Western alliance just as an "ideological earthquake" was shaking the foundations of Communist society.

In a speech on foreign policy to graduating students at Boston University, Mr Bush embraced the reforms of Soviet President Mikhail Gorbachev, but called for the maintenance of modern short-range nuclear missiles (SNF) on the European continent. He implied that this was test of the resolve of the North Atlantic Treaty Organisation.

Mr Bush's warning came amid continuing efforts to resolve the dispute within Nato over West Germany's calls for early negotiations with the Soviet Union on reducing short-range missiles. It overshadowed his strongest endorsement to date of European economic integration and the creation of a single market by 1992.

Although he welcomed the sweeping and dramatic changes in the Soviet Union, Mr Bush said that "in an era of extraordinary change, we have an obligation to temper optimism with prudence."

Flanked by President François Mitterrand of France, Mr Bush expressed support for European efforts to co-operate on defence, such as the Western Defence Union, but he said the US was extremely concerned about the "growing complacency throughout the West."

Mr Bush avoided mentioning West Germany by name, but he stressed that American lives had been lost in two world wars in Europe this century. The Nato alliance had kept the peace for 40 years, he said, and the doctrine of flexible response had kept the US linked to Europe. "Our short-range missile deterrent forces based in Europe, and kept up to date, demonstrate that America's vital interests are bound inextricably to Western Europe."

President Mitterrand, who spent a warm and friendly weekend at Mr Bush's summer vacation home in Kennebunkport, Maine, before joining Mr Bush at Boston University to receive an honorary degree, has attempted, apparently with some success, to act as bridge builder within the alliance on the SNF dispute.

Unlike the UK, France has argued that negotiations on short-range missiles can take place in future, but only on condition that there is substantial progress in the Vienna talks on reducing Warsaw pact superiority in conventional weapons. It was unclear if the Franco-American position is acceptable to Mrs Margaret Thatcher, the British Prime Minister.

Mr James Baker, US Secretary of State, said on Saturday that France and the US were "in complete agreement" on a new US counter-proposal on SNF given to the West Germans last Friday. "This contemplates postponing until 1992 a decision on deployment and production" of a new short-range nuclear missile to succeed the Lance, largely stationed in West Germany.

Mr Baker said West German conditions on SNF talks were too vague: "We think they must be more clearly expressed, and that there must be considerably more progress with respect to the completion and implementation of a conventional forces agreement."

Some US officials said this meant unilateral cuts in Soviet conventional weapons, the completion of a future treaty and an explicit statement ruling out the removal of tactical nuclear weapons in Europe – the "third zero" which some German politicians, including Mr Hans-Dietrich Genscher, the Foreign Minister, favour.

Mr Hans Klein, Bonn government spokesman, said the West German government saw the latest US offer on reducing SNF as a basis for agreement before next week's Nato summit. But Mr Helmut Kohl, the Chancellor, would still put some points in a letter to President Bush today and in a telephone call afterwards, he said.

Moscow matches UK expulsions

The expulsions of Soviet diplomats and journalists by Britain, followed at the weekend by "mirror image" expulsions ordered by Moscow, threaten to undermine the recent improvement in relations between the two countries. The Soviet Union also said it would operate a quota system for British citizens similar to that operating in London. Report, Page 20

London SE faces 'erosion of central role' if flaws remain

By Norma Cohen in London

THE LONDON Stock Exchange faces further erosion of its role as a central market if it does not remedy some of its serious flaws, according to a consultancy's report to be considered today at a special meeting of the exchange's Council.

The study, prepared by consultancy Touche Ross, is one of two commissioned reviews on the future of the exchange. The other report was prepared by a group of market practitioners chaired by Mr Nigel Elwes of Warburg Securities.

The existence of two competing studies has caused tension between the proponents of the respective reports and has heightened the controversy over the future of the exchange. Stock Exchange Council members meeting today are unlikely to adopt the views of either of the studies.

The Touche Ross report argues that the current quotation-based system, where competing market makers publicly display the prices at which they will buy or sell stocks, is excessively dependent on those market makers. As a result, the system requires complicated rules to protect their position, yet the rules cannot stop business from bypassing market makers and earning profits for others instead.

The consultancy's study also notes with concern the emergence of several single-firm order systems allowing customers to buy securities through e single market maker. If these systems are allowed to develop unchecked, it could lead to greater market fragmentation and a reduction in the quality of central prices, the study says.

The report prepared by the Elwes committee focuses instead on ways to improve the existing quote-driven system of competing market makers. Most significantly, it suggests that market makers be required to meet a group of strict performance criteria in order to maintain their privileges. This is expected to lead to a reduction in the number of market makers, thus addressing the exchange's most pressing problem of overcapacity for members.

In contrast, the Touche Ross report recommends extending market makers' privileges to broker dealers – firms which act ostensibly only as middlemen in transactions and do not commit their own capital. The study concludes that broker dealers sometimes do commit their own capital and act as principals and therefore the distinctions between the two are artificial. In return for market makers' privileges, the broker dealers should be required to give the exchange and the public more information about their trades.

The suggestion that privileges should be extended to all has provoked an outcry from the market makers, who regard them as their only incentive to take on their role.

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George Russell is the first businessman to be appointed chairman of Britain's independent Broadcasting Authority. With it he faces his biggest challenge in government plans for more competition and choice in broadcasting
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Budget deficit in US $10bn lower than expected

By Peter Riddell, US Editor, in Washington

THE US Federal Budget deficit is, for once, turning out to be lower than expected, thanks to buoyant tax receipts, which could slightly ease the task of cutting next year's deficit.

The US had a record month's surplus of $41.4bn (25.7bn) in April, roughly $10bn more than the administration expected. This was because of even bigger than forecast tax revenues in the biggest month of the year for tax collections.

Consequently, private sector economists are revising down their estimate of the likely federal deficit for fiscal 1989 (ending on September 30) to $145bn-$155bn. This compares with an administration estimate of $170bn (after excluding $7bn of asset sales) and a statutory target of $136bn.

After seven months of the fiscal year the deficit totals $87bn, compared with nearly $106bn at this time last year. The deficit for the whole of fiscal 1988 was $155bn.

It is uoclear whether the buoyant reveoue trend will carry over into later years, because the April figures may partly reflect once-a-year final tax payments and the after-effects of the 1986 Tax Reform Act. None the less, to the extent that continuing revenue is more huoyant than forecast, it will help offset the impact of continuing high interest rates in reducing the deficit.

Revised forecasts will be produced in mid-July to determine whether more spending and tax measures are needed to reduce the fiscal 1990 deficit below the statutory target of $100bn. The Senate and House of Representatives last week finally approved budget resolutions intended to meet that target, though some of the components are widely regarded as over-optimistic.

Late on Friday, the Federal Reserve released the minutes of the March 28 meeting of its policymaking open market committee. These confirm that the Fed governors and regional bank presidents decided to keep interest rate and money supply policy unchanged pending more evidence on inflation and any slowdown in ectivity.

Policy analysts and the market believe the present stance will be continued for the time being, given the uncertainties over the economy.

Canada and US urge fresh talks on export credits

CANADA and the US have begun to push for a new round of negotiations to limit subsidies on export credits to developing countries, Peter Montagnon reports.

The move comes amid signs of sharp growth in the volume of so-called mixed credits, which are used by industrial countries to help win business in the developing world. These are export credits sweetened with development aid funds to make them more attractive.

The two countries have been pressing for the question to be put on the agenda of the meeting of finance and trade ministers at the Organisation for Economic Co-operation and Development this month in the hope of launching a far-reaching review of international export credit rules.

OECD figures show that its members raised their offers of mixed credits by 30 per cent in value in the year to last June 30. Thongh the growth rate has levelled off since then, offers are continuing to run at a high level.

International export credit rules were last reviewed in 1987, when a wide-ranging set of reforms was introduced in an attempt to clamp down on mixed credits, to make for fairer international competition and ease the budgetary cost of subsidies.

"The issue needs to be looked at further," said the US Export-Import Bank, which published a study this month suggesting that US exporters were losing up to $800m in sales a year as a result of mixed credits offered by competitor countries.

Growth in the volume of such credits has also fuelled wider international anxiety that they may have begun to divert aid away from the poorest countries, thereby distorting aid flows as well as trade.

Canada's concern has increased as a result of its latest budget, in which the government bowed to fiscal pressures to axe plans to purchase a C$8bn (£4.1bn) fleet of nuclear submarines to patrol its Arctic waters but was compelled by prior commitments to increase sharply its spending on concessional loans.

However, there remains resistance among European countries to the idea of new negotiations on mixed credits so soon after the last one.

Though agreed in 1987 the changes it involved were only fully implemented in the middle of last year.

Craxi prepares to exercise his bargaining power

John Wyles looks at the motives of the man behind the fall of Italy's 48th post-war government

IS Bettino Craxi a far-sighted politician so deeply pained by the shortcomings of the Italian political system that he has a private strategy for fundamentally changing it? Or is he merely a consummate opportunist bent on maximising his personal power at the expense of political stability and the national interest ?

These qnestions lie at the heart of the political crisis triggered hy the Socialist leader last Friday and formalised by the resignation of Mr Ciriaco De Mita, the Christian Democrat who has led Italy's 48th post-war government for just over a year.

The political and journalistic worlds in Italy have been intrigued and divided hy Mr Craxi ever since it became clear about eight years ago that he would exploit to the full his pivotal power.

For the Socialist leader is in the enviable position of being the man to whom the Christian Democrat party (DC) and its three satellites, the Republicans, the Social Democrats and the Liberals, must turn to if they want to govern without Communist support.

This hargaining position, allied to an iron determination and a feline sense of his rivals' weaknesses, carried Mr Craxi to the premiership in 1983 and sustained him in office for four years. There, he demonstrated undoubted leadership qualities, the memory of which, the polls euggest, still makes him the Italian people's first choice as prime minister.

His decision to force Mr De Mita out on Friday, in effect hy requesting his resignation,is certainly a quest for short-term tactical advantage.

But at this stage, one can only guess how it may serve Mr Craxi's longer-term goal of uniting and leading the Italian left within a presidential political system of fewer political parties.

His immediate aim, obviously, is to strengthen the Socialist vote at next month's European Parliament elections. Thus, the political crisis will overshadow and inform the election campaign, in which little will be heard about the European Community.

Nevertheless, there is a always a risk that the Socialists may be penalised for provoking yet another crisis, so why should Mr Craxi think it worth running?

The first part of the answer is that a crisis, with its attendant headline-grabbing consultations among the coalition leaders and President Cossiga, should serve to highlight the present irrelevancy of the Communists (Pci).

This could help to blunt the possibility of a Pci electoral recovery under its active and astute new leader, Mr Achille Occhetto, who may be convincing people that its transformation into a social democratic party is now complete.

Any sign of a Pci recovery at the polls would be a serious blow to Mr Craxi's hopes.

Mr Craxi's other reason for gambling on a crisis now is that if his party'e vote continues to rise, he will be in a strong position to influence the DC's choice of prime minister and to insist that the last two years of the legislature are devoted to institutional reform.

He stressed last Friday that he was ready to collaborate again with the DC. He did not even blackball Mr De Mita'e chances of succeeding himself. But he almost certainly believes he can exploit internal DC divisions to aid the ambitions of Mr Guilio Andreotti, who has been prime minister five times before and has lost none of his taste for the job.

There is a strong suspicion that Mr Craxi hopes to parlay a good election result into a government programme committed to achieving political reform in the final two years of this legislature.

One of his problems is that none of the other parties has shown any willingness to accept his proposals, seeing them as a vehicle purely for Mr Craxi's personal ambitions.

Another is that the positions of the two largest parties, the DC and the Pci, on political reform are very much closer to each other than they are to Mr Craxi. In this classic poker game, if the Socialist leader were to overplay his hand he could force them into an alliance which might cost him much of what he has painfully gained this decade.

Brittan in Renault debt move

SIR Leon Brittan, European Competition Commissioner, will this week issue a final demand to the French Government to observe strict EC conditions for the rescue of Renault, the heavily indebted state-owned car maker, writes William Dawkins in Brussels.

He will write in the next few days to Mr Roger Fauroux, the French Industry Minister, calling for more details of the terms under which Paris is planning to write off FFr12bn (£1.1bn) of Renault's debts. If Sir Leon is not satisfied that Paris will remove Renault's government debt guarantees and force the company to stick to a strict restructuring plan, he will the Commission to demand repayment of some or all of the aid.

This would be an extremely difficult decision for Mr Jacques Delors, the French President of the Commission, who would have to sanction such a sensitive decision along with the 16 other commissioners. Mr Delors has clashed with previous colleagues over the interpretation of EC rules against state aid, but has not yet become directly involved in Renault's latest problems.

The Brussels authorities cleared the write-off in March last year on condition that Renault observed a confidential plan for capacity cuts of more than a quarter between 1984 and 1990, and that the government removed Renault's privileged régie status under which it cannot legally go bankrupt.

However, the Renault plan was thrown into doubt after the French conservative government, which signed the deal, fell to the Socialists. Mr Fauroux courted a clash with Brussels hy announcing at the end of last year that he would proceed with tha write-off without changing Renault's status.

Anger at Spanish oil fraud sentences

All the anger and the anguish caused by a cooking oil fraud eight years ago that killed hundreds of Spaniards and maimed thousands more spilled over at the weekend when a Madrid court ruling on those responsible for the tragedy provoked scenes of hysteria and violence, writes Tom Burns in Madrid.

A three-man bench jailed just two of the 37 defendants, passed low sentences against a further 10 who were automatically released from prison because they had already served their terms awaiting trial, and acquited 25.

At least 605 people died as result of consuming the toxic oil and nearly 25,000 suffered grave health disorders.

Soviet defector's MiG returned

A front-line Soviet MiG-29 fighter, landed in Turkey by a wounded defector, was flown back to the Soviet Union on Sunday, Reuter reports from Ankara.

The aircraft's air-to-air missiles and ammunition were loaded onto a Soviet military Ilyushin-76 transport which left Trabzon airport near the Black Sea at about the same time. The defecting pilot, Air Force Captain Alexander Zuyev, 27, landed at Trabzon on Saturday with a bullet wound in his right arm and bullet holes in the fighter's officials said.

Radicals roar support for Yeltsin

By Quentin Peel and Bruce Clark in Moscow

RADICAL deputies from Moscow, led by Mr Boris Yeltsin, the former leader of the city Communist Party, are demanding that the Soviet Union's new super-parliament – the Congress of People's Deputies – should debate the entire economic and political crisis of the country this week.

A mass rally in the capital yesterday, estimated at more than 30,000, roared its support for the alternative agenda proposed by Mr Yeltsin and a string of other radicals.

They cheered the disgraced former candidate member of the ruling Politburo when he demanded that Mr Mikhail Gorbachev face a challenger for his post of President of the future Supreme Soviet. They gave the same reception to a call – from a Lithuanian deputy – for Mr Nikolai Ryzhkov, the Prime Minister, to resign.

The crowd, bigger than any which attended rallies in the capital during the election campaign, also gave a big reception to Mr Telman Gdlyan, the deputy and public investigator who has been dismissed and vilified for his methods in exposing corruption in the ruling party's ranks.

The Moscow deputies now form the core of a substantial minority group of radicals in the new assembly, which meets next Thursday as the culmination of the stormy elections held in the Soviet Union over the past two months. They are backed by other deputies from the Baltic republics, and all round the country, where outsiders from the Communist Party apparatus defeated a string of major regional party leaders.

Apart from Mr Yeltsin, the platform yesterday included Dr Andrei Sakharov, the veteran dissident and Nobel prize-winner, a string of Moscow deputies, and others from Lithuania, Belorussia, the Ukraine, and Nagorno-Karabakh – the focus of last year's bitter clashes between Armenians and Azerbaijanis.

Their radical agenda is to force the new Congress to debate the economic plight of the country, to propose new solutions, and to consider the whole raft of new legislation put forward in recent weeks by the present government.

"We are suffering a crisis at the moment. We see that the authority of the party is falling," Mr Yeltsin said. The deputies had to discuss radical measures to tackle both the economic crisis and the crisis in relations between the Soviet Union's nationalities.

The biggest roar of approval came when he called for a new Communist Party Congress to elect a new Central Committee and a new Politburo.

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OVERSEAS NEWS

Peking turmoil likely to be profound embarrassment for Gorbachev

By Quentin Peel in Moscow and Peter Riddell, US Editor, in Washington

THE turmoil in Peking, and the apparent eclipse of Zhao Ziyang in the Chinese Communist Party leadership, is likely to be a profound embarrassment to Mr Mikhail Gorbachev's government in Moscow, just after the Soviet leadership thought it had opened a new era in relations with China.

The huge disturbances on the streets of the Chinese capital have been given only the most cursory coverage in the Soviet press, a traditional indication of confusion in the leadership over how to respond. Instead, columns of newsprint and hours of broadcasting continue to be devoted to analysis of the normalisation of Sino-Soviet relations from the Soviet leader's summit in Peking last week, without a mention of the Chinese leadership's glaring divisions.

The biggest embarrassment for Moscow would be if Zhao Ziyang is indeed shown to have been ousted from his post of Communist Party leader, for he was singled out by the Soviet delegation as the natural partner for Mr Gorbachev.

Officials travelling with the Soviet leader said that the two found an instant rapport – a comment they did not make about either Deng Xiaoping, the veteran power behind the throne, or Li Peng, the hard-line Prime Minister who issued the order for martial law in Peking. Now it seems that the man chosen by Moscow as their natural ally may have been forced to quit.

Moreover Mr Gorbachev publicly commended the Chinese government for embarking on a "dialogue" with the protesting students in Tiananmen Square, in his eve-of-departure press conference. Observers were convinced he would not have done so without the permission of Zhao, his Chinese counterpart.

The other aspect of the Soviet embarrassment is the fact that it makes the much-heralded normalisation of relations seem much less important, because the Chinese side has been shown to be deeply divided, if not actually in danger of losing power.

The Soviet media has continued to present the summit in glowing terms. Pravda, the Communist Party's principal newspaper, yesterday wrote u front-page editorial without u mention of the disturbances. "The two Socialist countries have put their relations on a stable and healthy basis," it said. They now had "a solid political foundation".

The only possible reference to internal difficulties was in the comment: "Deeper trust and mutual understanding will help the two countries concentrate more fully on peaceful creative work and multiply resources for resolving urgent problems of Soviet restructuring, and Chinese reforms."

Meanwhile the US this weekend broke its silence with a cautious official statement appealing for restraint on both sides and supporting freedom of speech and assembly, though stopping short of outright backing for the Peking students.

Mr James Baker, US Secretary of State, said he did not think it "would be in the best interests of the US for us to see significant instability in the People's Republic of China. But we support freedom of speech and assembly. I don't think we should be seen in any way as inciting to riot".

Reflecting the Administration view that any crackdown will not work in the long term, Mr Baker said that "what may be happening here is that the economic reforms in China got out a little bit ahead of the political reforms. Certain processes are irreversible. When people taste the fruits of freedom, it's not our view that you can reverse that process".

The cautious US view partly reflects President George Bush's acceptance that the US has little or no influence on events in China. Mr Bush also does not wish to harm Sino-US relations and antagonise the Chinese leadership.

Some Congressmen have called for a stronger US statement. Mr Stephen Solarz, Democratic chairman of the House subcommittee on Asian Affairs, described the Administration's view as "too much low key", and argued that President Bush should speak out personally, "making it clear that the US supports the demands of students and workers in China for greater freedom of expression and democracy".

Hong Kong has a taste of political street power

The colony has learned two lessons, **John Elliott** writes

HONG Kong's youth was politicised over the weekend for the first time in its history when demonstratione in support of Peking'e students brought up to 1m into the centre of the colony for a march inconceivable only a week ago.

Six months ago, a demonstration by 500 people demanding more democracy in Hong Kong made headlines. Last Thursday, a demonstration of 5,000 students supporting the Peking movement raised the record, which rose again two days later when 50,000 demonstrated despite a hurricane which wrought havoc near by.

Yesterday's huge demonstration brought a taste of political street power to a colony which has shown little interest in the slow development of its own limited democracy, and which has traditionally lived in silent fear of its giant neighbour a few miles north.

Two lessons emerge from the weekend's events as Hong Kong prepares for its return to Chinese sovereignty in 1997.

First, the youth of Hong Kong see themselves primarily as part of China; but they want it to be a democratic not a totalitarian state. Yesterday they did not demand democracy or a special deal for themselves, nor independence for Hong Kong. Instead, they sang "We are China – We are Chinese" and yelled in chorus "Li Peng resign", "Oppose oppression, army withdraw", and "What happens in Peking will happen in Hong Kong".

That echoes one side of the pre-1997 political debate, which argues it is wrong to accept China's "one country – two systems" pledge for Hong Kong to enjoy a "high degree of autonomy" within China after the handover. Instead, the argument goes, Hong Kong should accept itself as an integral part of China, then work for economic and political change across the country.

Second, the British and Peking governments, which have been trying to design a calm approach to 1997, are likely to find their tacit understandings challenged in unprecedented ways that cannot be brushed aside.

If the Peking protests end with more democracy and a liberal régime, Hong Kong's liberals will push for rapid introduction of more democracy in Hong Kong, possibly before 1997 and certainly on the July 1 handover day. They would start that campaign immediately, because the final draft of the Basic Law which will govern Hong Kong after 1997 will be prepared by Peking before the end of the year.

But if a harsh non-liberal régime emerges in Peking, there will be a backlash in Hong Kong. Many more would join a current annual brain drain of around 45,000 people. Some political activists would even campaign for the UK to reopen negotiations on the 1984 Sino-British Joint Declaration which paves the way for the 1997 handover.

"The people of Hong Kong would say to Britain: 'Look, when you signed that agreement it was a time when Deng was pushing liberalisation and there were economic and political reforms in Peking. That has gone, so we must re-negotiate'," Mr Martin Lee, a leading democracy campaigner, said yesterday.

Hong Kong has been suffering a loss of confidence in recent months about 1997 and this made the local Chinese population welcome Peking's peaceful demonstrations, and the way they were tolerated by the government, as a hopeful sign for their own future.

"A peaceful settlement in Peking would take a lot of pressure off Hong Kong and people would take a more positive view on 1997," Mr Vincent Lo, a young entrepreneur said at the end of last week.

But the prospect of a clampdown sent the local stock market into a nosedive on Friday, and the imposition of martial law that night seemed to confirm Hong Kong's worst fears that some time, Peking will renege on its post-1997 "high degree of autonomy" pledge. That is why banners yesterday proclaiming "What happens in Peking today happens in Hong Kong tomorrow" were specially pertinent.

Those who provided the backbone of yesterday's march will today return to the studies and work needed to make them and Hong Kong prosperous. But their campaign will continue and what was a lukewarm debate in Hong Kong about its own democracy has broadened this weekend into a debate about the development of democracy for all of China.

A demonstrator shonts slogans in support of Peking students

Fury, shame and ambition in party battle

Colina MacDougall on how incompetent leadership led to the crisis in Peking

IF CHINA'S leaders have lost control in recent weeks, it is because of their own incompetence and the inability to come to terms with the idea that the world has changed, and with it their own people, since 1949.

Among the people of Peking the assumption has been that behind the vermilion walls of Zhongnanhai, the party headquarters within the Forbidden City, has been raging a life-and-death struggle fired by fury, shame, and ambition. Supreme leader Deng Xiaoping had seen the Sino-Soviet summit, which should have marked a peak in his career, dissolve almost into farce.

President Mikhail Gorbachev's programme was cut to ribbons because it proved impossible to take him through the demonstrators to the scheduled events. This added burning insult to the injury done to the pride of China'e conservative old guard hy the intelligence and practicality shown in the student protest by its brightest young people.

- April 17. Protests begin at Tiananmen Square in central Peking as students call for democracy and reforms. Crowds of up to 100,000 drawn to city centre.
- April 22. Official funeral for Communist Party leader Hu Yaobang, in Great Hall of the People adjacent to Tiananmen Square.
- April 24. Students in Peking begin classroom strike.
- April 27. About 50,000 students defy authorities and march to Tiananmen, drawing supportive crowds of up to 1m.
- May 2. Leaders of unofficial and illegal student union ride bicycles to government and party headquarters to demand leaders meet them or face further mass protests on May 4.
- May. On 70th anniversary of Chinese patriotic movement, students march to Tiananmen Square. Crowd in square grows to 100,000. Students march in 10 other cities.
- May 13. About 1,000 students, later to grow to 3,000, begin hunger strike for democracy in Tiananmen. Zhao makes televised appeal, ignored by stadents, to end protest.
- May 15. Gorbachev arrives at Peking airport as protests continue in Tiananmen.
- May 16. Gorbachev and Deng Xiaoping meet at Great Hall in formal reconciliation between Soviet Union and China. More than 250,000 mass in Tiananmen Square and nearby streets. Protests spread to Shanghai and five provincial capitals.
- May 17. A million people jam central Peking. Protests reported in seven cities, including Shanghai.
- May 19. Troops begin to move into the capital.
- May 20. President Yang Shangkun declares martial law in Peking.

"China has been defamed," said both Premier Li and President Yang Shangkun in their speeches last Friday urging the students to quit the square. More correctly, the present corrupt and mediocre leadership had for once appeared in all its incompetence before its historic rival, the Soviet Union, and the cameras of the world's press.

Rumours have swept Peking in the past few days quoting the resignations of top leaders, notably Zhao Ziyang, the reformist party leader who was said to have been outvoted 4-1 in the ruling Politburo Standing Committee on the issue of whether to bring in the army. On the other hand, students with connections to the military said Deng had been forced to abdicate. The balance of advantage in the power struggle has swung to one side and then to the other, though now the hawks have the advantage.

In the last few days public opinion has increasingly crystallised. "Li Peng's completely batty," said a pedicab driver. Thousands cursed him when copies of his menacing May 19 speech dropped from the skies yesterday. The recently evolving view of Deng as a corrupt and elderly monster was cruelly revealed in the thousands of posters on display during the peak days of the protest.

Zhao the reformer, on the other hand, has grown in stature. Students and others in the square who were lukewarm about him a few days ago were won over when he did eventually go to meet them last week as they had reqnested and apologised for not doing so before. He is the only leader now who seems to understand anything about reform.

Zhao could probably rally support among a wide range of people in managerial or professional jobs but in Chinese society these people do not cut much ice. He does not have the clout among the military, who may be the final catalyst.

While the final outcome of China's peaceful revolt against the privileged dinosaurs of the party is etill unclear, the chances are that violence, and with it the worst aspects of party rule, will triumph.

Bad connections hamper the freeing of European telecoms

Hugo Dixon reports on EC disagreements over the planned liberalisation – and subsequent re-regulation – of a key services market

LIBERALISING any market is always fraught with problems. In fact, the need to write detailed rules to ensure that newly competitive markets work fairly and smoothly is so great that it has become something of a cliché to say that there is no such thing as *deregulation, only re-regulation.*

Telecommunications services are no exception. The European Commission's ambitious plan to inject competition into this market is accompanied by a sister scheme to re-regulate telecommunications.

All member states accept that there has got to be some form of re-regulation. There is, however, a dispute about what the rules should say precisely, with "liberal" minded governments such as the UK arguing that the Commission's detailed proposals will harm the cause of competition rather than promote it, by tying up the private sector in miles of red tape.

At present, this dispute over how telecommunications should be re-regulated is overshadowed by a more vociferous argument about how the sector should be liberalised in the first place. This centres on whether the Commission has overstepped its authority by attempting to force through liberalisation without giving member states a chance to vote on the proposals.

All nations oppose this approach, although the situation is complicated by the fact that they are split on the contents of the proposals. West Germany and the UK are in favour; France, Italy and Spain are against.

Debate on the re-regulation proposals has not become so heated, because the Commission has said all along that it will put them to a vote. Even so, the Commission is in an uncomfortable position because those countries which are in favour

1992 THE EUROPEAN MARKET

of its liberalisation policy are against its re-regulation proposals, and vice-versa. UK officials hint that, if the rules are not improved, Mrs Margaret Thatcher, the Prime Minister, might take the issue up in her crusade against Euro-bureaucracy.

The re-regulation proposals are contained in a draft directive which goes by the cumbersome title of Open Network Provision (ONP). This directive is due to be debated later this week by the European Parliament before being modified – if necessary – and presented to the Council of Ministers for final approval some time this summer.

The need for such a directive stems from the fact that the Commission is only proposing liberalisation of services rather than liberalisation of networks. Europe's public operators are still to be allowed to maintain a monopoly in building and running the telecommunications infrastructure. They will simply be forced to open up their networks to rival private service providers.

There will not, in fact, even be a completely free market in services, with public operators being allowed to retain a monopoly on the basic phone service and telex. The main focus of the plans is to boost competition in the fast-growing data communications markets such as electronic mail, electronic trading and electronic banking.

But forcing monopoly operators to open up their networks is more easily said than done, as regulators in both the UK and the US, where markets are already fairly liberal, have discovered. The network operators have every incentive to charge their new competitors too much, give them dud lines, delay on repairs, impose uneconomic conditions and otherwise make life difficult for them.

Hence the need for a tough rule book to prevent the monopolies abusing their position and stifling competition. ONP is designed so monopoly providers "will not unduly profit by fixing access conditions which are unfair", says Mr Michel Carpentier, the Commission's director general for telecommunications.

In addition to wanting to ensure fair play, the Commission is also keen to make life easier for telecommunications users which have businesses in several European countries.

At present, Europe's operators offer services packages with widely different tariff principles and using technologies that do not interconnect properly. This balkanisation is extremely confusing for users and prevents them using telecommunications to knit together operations spread throughout the Community.

The Commission is anxious to remedy this in advance of the creation of the single market in 1992. Its ONP directive therefore sets out to harmonise the conditions under which private companies will have access to the public networks.

This project has three parts. Technical conditions should be harmonised so that networks can connect with each other properly; service conditions should be harmonised so that users will know that they can get a basic minimum standard of service in each member state; and tariff principles should be harmonised so that users will be able to work out how much pan-European services are going to cost them.

Harmonised tariff principles could bring far-reaching benefits to business users. Although Brussels is unable to fix telecommunications prices, it is proposing that they should be based on costs.

Harmonised principles will make it easier to compare prices in different countries and glaring examples of overcharging will therefore stand out. In particular, the prices of international and long-distance calls – now held artificially high in the belief that business customers should subsidise residential customers – should drop.

This, at least, is the idea of ONP. The snag is that all those who might have been expected to support such a laudable attempt to help users are actually against the ONP directive as it is drafted. That includes not only the liberal governments of the UK and West Germany, but the users themselves.

What seems to have happened is that the network providers are using ONP as a way of reclaiming privileges that they are in danger of losing under the Commission's other directive on liberalisation. This has occurred because the committee responsible for writing the detailed ONP rules, the SOGT committee, is dominated by the public monopolies.

Although this is theoretically only an advisory committee, in practice the public operators are writing the rules of the game by which their competitors will have to play.

Two specific aspects of the ONP proposals have stuck in the gullets of the liberal countries and the users.

First, they oppose the Commission's suggestion that the ONP conditions might apply *not only* to pub-lic operators but also to rival private service providers. They argue that it is only necessary to police the activities of the public operators, because only they are in a position to stifle competition by denying their rivals access to their networks. Forcing private compa

> Those countries which are in favour of the Commission's liberalisation policy are against its re-regulation proposals, and vice-versa

nies to obey the same conditions is an attempt by the monopoly operators to restrict their rivals' commercial freedom.

The counter-argument is that some private service providers – the most feared being *IBM*, the world's largest computer company – are so powerful that they too could rig the market. The concern is that such companies might allow businesses to use their services only if they also agreed to buy proprietary hardware.

Moreover, the Commission points out, ONP's primary focus is on the network operators. Before other companies could be forced to obey the conditions, there would have to be another vote in the Council.

The second objection to ONP is that it covers more services than needed. Specifically, users believe the restrictions should only apply to those services over which the network operators will have a monopoly following liberalisation.

Their main interest is that they should be able to lease lines from the public operators on fair terms, as these leased lines form the basis for offering sophisticated data communications services.

The Commission, however, has proposed a much more ambitious scheme which would involve harmonising conditions for a larger range of services. In particular, it wants ONP to apply to the switched data communications services provided by the public operators.

In the face of criticism from the liberal countries and users, the Commission is now thinking of compromising on both these points. However, pulling it the other way will be the arguments of France, Italy and Spain.

These are anxious that, if competition is injected into telecommunications services, it is not done in such a way that private companies can cream away the most profitable business from the public operators, so compromising their ability to provide universal basic services.

Nevertheless, in the final analysis, progress on the re-regulation of telecommunications will only be able to move as fast as the Commission's main plan for liberalising the sector. If this gets snarled up, there will be little point in ONP.

EC FINANCE MINISTERS MEETING

Waigel seals fate of plan for harmonised withholding tax

By David Buchan and Peter Bruce in S'Agaro, Spain

THE European Commission's three-month-old plan for the 12 EC states to adopt a 15 per cent minimum withholding tax on bank and bond income was informally laid to rest over the weekend.

The fate of the tax-at-source plan, designed ostensibly to stem tax evasion next year when exchange controls are lifted, was sealed when Mr Theodore Waigel, the new West German Finance Minister, refused to consider reviving, even in an EC context, the withholding tax he was now in the process of abolishing.

However, revised Commission proposals on indirect tax harmonisation got a general welcome from all, except Belgium, which has objected strongly to the plan to increase cross-border shopping by quadrupling the amount of tax-paid goods travellers can take from one country to another.

Belgians will buy more than ever in lowly-taxed Luxembourg, their government fears.

Most dramatic was the UK's change from its earlier hostility to the original value added tax and excise tax plans put forward in 1987 by Lord Cockfield, replaced as tax commissioner by Mrs Christiane Scrivener of France this year.

Mr Nigel Lawson, the UK Chancellor of the Exchequer, welcomed at the weekend the consignment of the Cockfield ideas "to the scrapheap" and the replacement of "an English dogmatist by a French pragmatist."

In its effort to reduce tax evasion when money starts flowing entirely freely in most of the Community after July 1 1990, Brussels is now forced mainly back on its plan to tighten co-operation among the national fiscal authorities of the Twelve.

The main opponent of this has been Luxembourg, which recently strengthened its bank secrecy law. But Prime Minister Jacques Santer, who doubles as finance minister, told the S'Agaro meeting that the duchy could accept the fiscal coordination plan, provided the withholding tax proposal was dropped.

For the moment, the Commission is not inclined to take the withholding tax plan off the table formally, because it has nothing with which to replace it.

Commission officials believe that they might still get the Twelve's agreement to pursue a savings tax-at-source at a wider international level.

A complaint of the UK, Luxembourg and, latterly, Germany was that it would drive savings out of the Community.

So, Commission officials are saying that Brussels should try to bring others such as the US, Japan and countries in the European Free Trade Association (Efta) into a wider taxation-at-source scheme.

Harmonised taxation on savings was requested last year by France, fearing for the flight of tax-shy money to neighbours like Luxembourg.

Its consideration was agreed as part of a political deal made under the German presidency of the EC last June to get capital liberalisation by July 1990.

Ironically, the Commission now appears to be more furious than Paris with what it sees as backtracking by Bonn. While complaining of last year's "clear commitment" for accompanying fiscal measures, Mr Pierre Beregovoy, the French finance minister, stressed the importance of capital liberalisation, not least because it is the precondition for monetary union plans which Paris supports.

Beelzebub demands a few answers from Mrs T

By David Buchan and Peter Bruce

NO ONE seems to be enjoying the great British debate about Europe more than Mr Jacques Delors, who is revelling at being cast by Mrs Margaret Thatcher as the Beelzebub of Brussels.

He said so at the weekend during the EC finance ministers meeting in Spain.

"The debate in the UK about monetary union and the future of Europe is the most interesting I have seen," he said, since the publication in April of the Delors committee report.

After saying "I have no intention of entering the debate between the [UK] Prime Minister and my good friend, Nigel Lawson," he then did precisely that by mocking Downing Street's well-worn phrase about sterling joining the European Monetary System's parity grid "when the time is ripe." It sounds, he said, like "something out of a fairy tale".

The Commission president says he is intrigued at the way the British, more than any other EC nation, have – in his view, rightly – gone straight for the political sovereignty issue at the heart of the monetary debate.

At the same time, he reckons that Mrs Thatcher has weakened her case on the continent, and perhaps in the UK, by so exaggerating the threat of a socialist supra-state bent on reviving a marxist class struggle.

Having read in one day – last Friday – no fewer than 32 press articles on the UK's Great European Debate, Mr Delors said he thought there were four key questions for Mrs Thatcher:

● Why did she sign the Single European Act, when she was now denouncing the process [majority voting] it gave rise to?

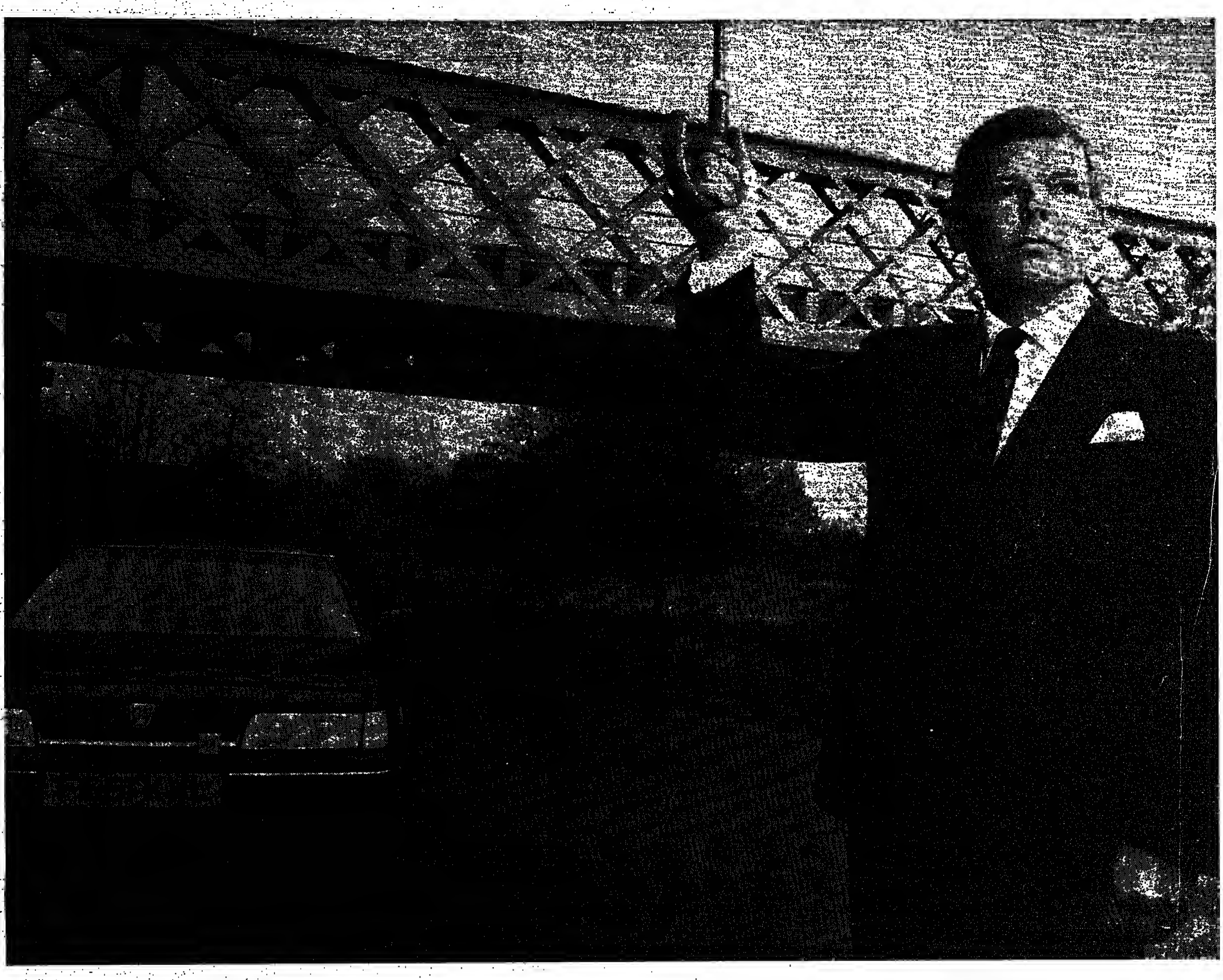
● How could she reconcile her modern economic liberalism, based on international competition, with her hyper-nationalism?

● Was she not setting the West Germans a bad example just when she was criticising them for blinkered nationalism in not serving the Nato alliance interest in nuclear modernisation?

● Is she not afraid of being isolated in Europe?

In normal times, the Brussels bureaucrats keep fairly silent about national political debates in member states. But these are not normal times.

Thatcher seeks to narrow Tory rift over Europe, Page 7



"FIGURES ARE THE ONLY THINGS I WANT TO SEE BROKEN DOWN."

The [illegible] company [illegible] car rental [illegible].

For the Managing Director [illegible], it was the opening of a [illegible].

With [illegible] 220,000 cars in 4,500 locations in over 120 countries, the time has come for him and his company to compete with the traditional industry giants on an equal footing.

For Hardman, a new company logo and livery were only the start of a concerted marketing push.

"We want to consolidate and develop through an innovative research based programme," he says.

This means developing products that are correctly targeted, and presented to the consumer in a simple and relevant way – something which, in Hardman's opinion, is essential to future growth and prosperity of the car rental business.

Europcar already have facilities at over 200 UK locations including 38 airports.

But Hardman is not complacent.

"We're hungry for more success," he states emphatically. "We've always been pioneers and now we plan to revolutionise the industry."

His determination is evident as he finishes with a resounding clarion call:

"We're now up amongst the market leaders and as such, we plan to show the way ahead." With the aim of being the biggest and the best, we're delighted to say Mr Hardman has recognised a kindred spirit in the AA.

Not only do we cover the Europcar fleet, we have been entrusted to keep his executives and staff moving efficiently and quickly.

The AA, for instance, has twice as many patrols than all the competition put together. We aim to be on the spot within minutes, minimising wasted time and unnecessary disruption.

We have more people and resources, so we don't rely totally on local garages or private recovery companies.

Rigorous training ensures that almost all breakdowns are fixed at the roadside and failing that, the journey can be completed, anywhere in the UK, in safety and comfort using our Relay service.

If a breakdown occurs at home, AA Home Start is available 24 hours a day, 365 days a year.

The businessman is never left stranded or in distress. Nothing is sloppy or second rate.

The best example of our thorough professionalism is our Relay Plus service, which offers the choice of a replacement car, hotel accommodation or public transport.

Our objectives are to minimise your fleet management headaches, whether your fleet numbers five or five thousand, and assist with our technical and legal services.

Our philosophy is, in fact, remarkably similar to Mr Hardman's: as market leader, we set the standards for others to try and match.

To talk about an individually tailored package for you, call our Company Membership people now on 0256 492702.

AA Company MEMBERSHIP

We're all you need to know.

OVERSEAS NEWS

My ears ring with the cries of Kurdish women, says Mrs Mitterrand

Edward Mortimer reports on an impassioned plea for refugees whose camps are 'like a bomb' and whose plight is a 'race against time'

I the undersigned, beneficiary of the amnesty decree no. 866 issued on November 30 1988 by the Revolutionary Command Council, hereby undertake to reside in the place designated by the Committee in ... Province, ... District, ... Regroupment Camp, ... House. I also undertake not to engage in any political activity hostile to the Baath Party and the Revolution, and I shall incur the penalty of execution if I provide false information, if I commit any act contrary to the system or to the law, or if I change my residence without informing the relevant authorities. I sign in the presence of the head of the Party Committee, the Party member representing the Police, the representative of the Military Police, and the representative of the Political Police.

The above is a translation of the document which Kurdish refugees are required to sign if they wish to return to Iraq, according to Mrs Danielle Mitterrand, wife of the French president, who recently returned from a visit to three camps in eastern Turkey containing 36,000 Kurdish refugees.

It explains, she says, why none of the refugees are willing to return to Iraq in present conditions. Some 1,400 of them apparently did so when the amnesty was first offered, taking with them some 70 Iraqi prisoners. They went to their assigned zones of residence, but their relatives still in Turkey have been unable to get any news of them since, and believe that most of them are now dead.

"These three camps are three bombs," said Mrs Mitterrand. "There's going to be an explosion. All those men, mountain people in the prime of life, they're not going to accept. They've already borne the winter. They've seen their children die of cold. They're not going to watch them being dehydrated... I'm absolutely convinced of it, they'll prefer to die. It'll be collective suicide."

France's First Lady (not a title she would ever use, to judge by her strikingly simple and unpretentious manner), was speaking to a small group of journalists in Paris last Friday. She had not spoken to the press on the spot, she said, because she was there in a humanitarian capacity (although accompanied by the French ambassador, Mr Eric Rouleau) and because of the "delicacy of the local political situation".

But she was speaking now because she felt there was "a race against time", and because the refugees had placed all their hopes in her. "My ears still ring with the pleas of those women who followed me, seizing my hands and saying: 'Mrs Mitterrand, please don't forget us'."

'There's going to be an explosion. All those men, they'll prefer to die. It'll be collective suicide'

Their main demand, she said, was to be recognised as political refugees, so that they could benefit from the conditions laid down by the UN High Commissioner for Refugees. The camps would then be open, instead of being encircled with barbed wire and isolated from the surrounding population of Turkish Kurds; they would have their own autonomous administration; and above all there would be schools for the children; and the refugees would be allowed to receive aid directly from organisations abroad. The "whole problem" was, she said, that Turkey refused these conditions, insisting that aid be given from state to state and administered solely by the Turkish Red Crescent.

In a separate interview with the Financial Times, Mr Masoud Barzani, a Kurdish guerrilla leader who is currently visiting Paris, said the refugees had been subjected to further harassment by the Turkish authorities since Mrs Mitterrand's visit.

Activists who organised her reception had been interrogated, insulted and beaten; refugees living in rudimentary housing had been served notice that they would have to move back into tents; and refugee leaders had been warned that they might be asked to choose between deportation to Iran and dispersal in small groups all over Turkey, he said.

Mrs Mitterrand urged Western governments to put pressure on Turkey to improve its treatment of the refugees, and also to open their own borders to those who wanted asylum in western Europe. She admitted that many of the refugees "had reproaches to make about France" because of its role as an arms supplier and trading partner of the Iraqi government.

Clearly, she was aware of the oddity of a head of state's wife acting as if she were merely a private pressure group. She seemed to hint that her husband would like to do more to help, but would find it easier if public opinion acted as a counterweight to the pressure of the French foreign ministry, which seeks to avoid friction with the Turkish and Iraqi governments.

Arab hardliners are pushed on defensive

The Middle East equation has changed, Victor Mallet writes

WHEN Arab leaders formally re-admit Egypt to the Arab fold at this week's summit in Morocco, it will not escape them that it is they themselves – and not the Egyptians – who have changed their tune after 10 years of confrontation.

In the decade since the late President Anwar Sadat was excluded from the Arab camp for signing a peace treaty with Israel, the Middle East political equation has changed and Arab hardliners have been pushed onto the defensive.

Syria, giving its reluctant assent to the attendance of Egypt at the 22-nation Casablanca summit, may truthfully say President Hosni Mubarak is more acceptable to his fellow-Arabs than Sadat, and that the peace between Egypt and Israel remains a cold one.

But the more important truth is that Syria and Libya are for the moment somewhat isolated. Mr Yassir Arafat, Palestine Liberation Organisation chairman, has been stealing the limelight with his acceptance of Israel's right to exist, his renunciation of terrorism, his reflected prestige from the Palestinian uprising in the Israeli-occupied territories, and the PLO dialogue with the US.

Egypt and Iraq are his principal supporters. Mr Mubarak and his allies have already won a small diplomatic battle. He demanded and received an invitation from King Hassan of Morocco to attend the summit, instead of being accepted as a supplicant after the opening ceremony.

Libya, swimming against the tide, has made apparently futile attempts to postpone or cancel the meeting. It remains to be seen how effective and long-lasting the new mood of Arab unity and moderation will be after Egypt is readmitted.

There is talk of renewal of diplomatic relations between Damascus and Cairo (only Syria, Libya and Lebanon have so far refused to restore bilateral ties with Egypt) and of reconciliation between President Hafez al-Assad of Syria and the PLO mainstream.

In their acceptance of Israel, Mr Arafat and Mr Mubarak have gone further than many Arab countries – technically at war with Israel – would care to go. This week's Arab League summit is likely to be judged on the outcome of two important debates, one on Mr Arafat's diplomatic campaign and one on the future of Lebanon.

Mr Arafat wants Arab states such as Saudi Arabia to put pressure on the US and Europe in the hope they will squeeze some concessions out of the Israelis. The PLO is concerned that the West is being too soft on Mr Yitzhak Shamir, the Israeli prime minister, and on his plan for elections in the West Bank and Gaza, which rules out the idea of a Palestinian state.

The PLO also wants money, often promised to Arab causes by the wealthy oil producers but rarely delivered in full. The previous summit in Algiers last year pledged $128m to support the Palestinian uprising, with a monthly payment of $43m.

"The decisions taken in Algiers were not fully respected," says Mr Bassam Abu Sharif, Mr Arafat's adviser. In Lebanon, the Arab League's effectiveness is circumscribed by the interests of Syria, which has some 35,000 troops in the country.

The league has persuaded the feuding Christian and Syrian-cum-Moslem factions to accept the current fragile ceasefire. But it has so far proved impossible to send in an Arab League observer force of some 300 men. It is thought that Syrian acquiescence over the acceptance of Egypt may have been bought with promises of Saudi cash and watered-down resolutions on Lebanon.

Lara Marlowe adds from Beirut: The summit is awaited in Beirut with scepticism and fears that renewed fighting between Lebanese Christian forces and Syrian troops and their Moslem allies could coincide with the meeting.

Because the Arab League recognises neither Christian General Michel Aoun's government in East Beirut nor that of Moslem Prime Minister Dr Selim el-Hoss in West Beirut, Lebanon, a founding member of the League, will not participate in the summit at which its future is to be discussed. Gen Aoun said this weekend that any conclusions reached at the summit would be meaningless in view of his absence.

Officials expressed fears that the League may recommend simultaneous political reforms and presidential elections in Lebanon. Gen Aoun has rejected such a solution – against the advice of Western diplomats – on the grounds that 40,000 Syrian troops must first leave the country.

SHIPPING REPORT

Gulf ship activity shows signs of improvement

By Rachel Johnson

LARGE ship activity in the Middle East Gulf showed some signs of improvement due to the increased volume of business there. The ultra-large crude carrier market profited most, taking higher rates of around Worldscale 40 west.

Far Eastern charterers have also been active, but this has primarily been with local vessels in the smaller categories of 220,000-240,000 tons. This has tended to keep rates down to between Worldscale 42.5 and 44.

Galbraith's, the shipbrokers, said this week would be crucial for both owners and charterers as far as very large crude carriers were concerned, since ship availability in June would be fairly limited.

The West African and Caribbean markets continued to maintain their impetus despite a slight drop in rates at the beginning of last week.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Apr.'89	Mar.'89	Feb.'89	Apr.'88
US 000s	6546.0	6128.0	6328.6	6610.0
%	5.3	5.0	[illegible]	5.4
UK 000s	1883.6	1960.2	2018.2	2536.0
%	6.8	6.9	7.1	8.9
W Germany 000s	2035.0	2178.0	2305.0	2262.0
%	7.9	8.4	8.9	8.9
Belgium 000s	366.4	390.2	384.4	406.7
%	9.5	10.0	10.2	10.5
	Feb.'89	Jan.'89	Dec.'88	Feb.'88
Japan	1440.0	1430.0	1400.0	1660.0
%	2.3	2.3	2.3	2.6
France 000s	2527.4	2547.9	262.8	2581.9
%	10.0	10.1	10.1	10.2
Italy 000s	3837.0	3851.0	3847.0	3824.1
%	16.4	16.5	16.4	16.3
	Dec.'88	Nov.'88	Oct.'88	Dec.'87
Netherlands 000s	689.9	678.8	678.2	697.0
%	13.8	13.9	13.9	14.3

Source (except US, UK, Japan) Eurostat

UK NEWS

Thatcher attempts to heal rifts over Europe

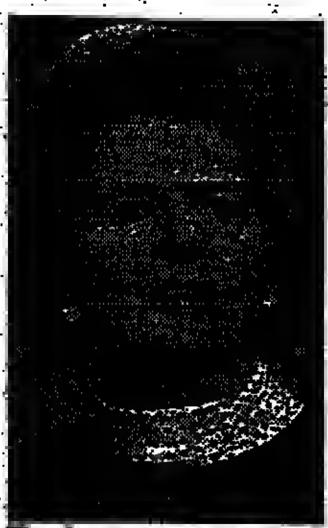
By Philip Stephens, Political Editor

THE CONSERVATIVE Party will today attempt to bridge its widening internal rift over Europe with a manifesto for next month's European parliamentary elections emphasising Britain's positive role during the past decade.

Its launch will follow a weekend denial by Prime Minister Margaret Thatcher that she had sought to blame attempts last year by Mr Nigel Lawson, the Chancellor, to link sterling to the D-Mark for the recent sharp rise in inflation. Mrs Thatcher assured Mr Lawson that her remarks had been misinterpreted.

The manifesto will stress what the Government regards as its strong contribution towards shaping events in the European Community since 1979 and a determination to "set the agenda" in the future.

Conservative leaders believe they can claim credit for reform of the EC budget and farm policy, for the initial impetus towards a single market, and for a range of measures which have helped consumers.


Thatcher: 'misinterpreted'

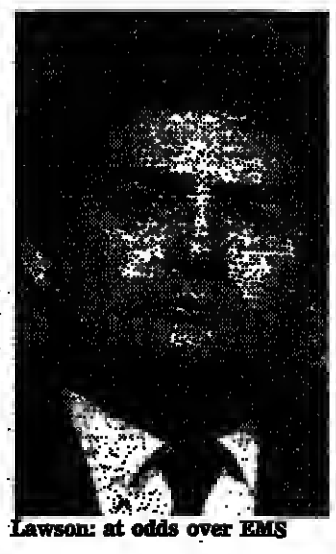
This image will be set beside a pledge that the Government will continue to play a leading role in liberalising the EC, while defending Britain's national sovereignty interest.

There remained doubts among some senior Conservatives yesterday that recent sharp divisions within the party over Britain's future in Europe could be held in check until the June 15 elections.

The Labour Party signalled that it would seek to exploit the differences throughout the campaign. This morning it will publish a series of recent statements by leading Conservatives – including Sir Geoffrey Howe, the Foreign Secretary – which are said to contradict the stance taken by the Prime Minister.

It will then monitor daily the remarks of figures such as Mr Edward Heath, the former prime minister, and Mr Michael Heseltine, the former defence minister, and compare them with those of Mrs Thatcher.

Mr Heath, a bitter critic of Mrs Thatcher's approach to Europe, is expected to maintain a full programme of public meetings during the campaign. So too is Mr Heseltine, who has launched a carefully-coded but vigorons campaign against what he sees as the negative tone of the Government.


Lawson: at odds over EMS

Despite Mrs Thatcher's assurances, the Prime Minister and Mr Lawson remain at odds over whether the Government should adopt a timetable to take sterling into the European Monetary System.

Mrs Thatcher's relations with Sir Geoffrey, who is said to have urged her to soften attacks on calls for closer European integration, are also thought to be tense.

Labour has prepared for the launch of its own European parliamentary campaign tomorrow with the most extensive private polling it has undertaken since the 1987 general election. This suggests public disenchantment with the Government on several issues such as the environment, pensions, and workers' rights, where standards are seen to be well below much of Europe.

Post union threatens legal action over delays

By Michael Smith and Rachel Johnson

POSTAL WORKERS yesterday threatened legal action against Post Office management for causing wilful delay – a criminal offence – to mail deliveries.

Mr Alan Tuffin, general secretary of the Union of Communication Workers told the annual conference in Brighton that bags of letters were piling up in sorting offices.

He was ready to prepare a case for "wilful delay of the mails" under the 1953 Post Office Act because managers were not allowing staff overtime for clearing the backlog of mail, he warned.

Mr Tuffin's legal action warning follows threats by the Royal Mail Letters to use the wilful delay clauses in the Act against workers who fail to deliver mail at the end of their second round of the day. The Post Office described Mr Tuffin's allegations as nonsense.

The threat of legal actiou also follows calls for the Post Office to be dismantled in a damning report on the PO's quality of service, pnblished today.

"Deliver us from the Post Office," compiled by the Mail Users' Association and the Association of Mail Order Publishers – representing companies with an annual postal turnover of more than £46m – accused the PO of producing grossly misleading figures on delivery efficiency, and estimated that British commerce was paying an extra £4bn a year because of postal delays and lost letters.

Power workers agree pay deal

By Jimmy Burns, Michael Smith and Terry Byland

BRITISH UNION leaders yesterday forecast a further upsurge in pay pressure in the aftermath of a 9.2 per cent pay offer to 76,000 manual workers in the electricity industry.

The pay offer was made by the Electricity Council after union leaders agreed to negotiate major changes to working practices which are expected to boost productivity in the run-up to privatisation.

However, other unions which are balloting their members on industrial action because of management restraint on pay, noted that the 9.2 per cent was made after power workers had voted for strike action from Wednesday.

Mr Jimmy Knapp, general secretary of the largest rail union, the National Union of Railwaymen said: "This pay decision is very important ... I am certain that many of my members will feel it was achieved by the threat of industrial action."

The NUR is balloting its 75,000 members on strike action at the end of this month in protest at a seven per cent pay increase which has been imposed by British Rail.

Gas and water industry workers, which together with rail workers, have in the past used settlements in the power industry as a benchmark, have already agreed to management offers of between 7 per cent and the current inflation rate of 8 per cent.

But union officials yesterday were predicting that the 9.2 per cent offer is bound to add momentum to pay demands in the public and private sector. Unresolved disputes over pay, in addition to rail workers, include BBC staff, bus drivers and local government workers.

Labour leaders propose change in arms stance

LEADERS of the National Union of Public Employees last night recommended that the union switch from backing strict unilateral nuclear disarmament to a new stance in line with the Labour Party's proposed multilateral defence policy, writes John Gapper.

A close vote on the issue is expected today at the union's annual conference in Scarborough, north-east England.

Nupe's block vote of 600,000 at Labour's annual conference could be crucial in deciding whether the party moves away from unilateralism. A statement from Nupe's executive said the union should back joint multilateral talks on nuclear disarmament. If these proved too slow, a Labour Government should start direct negotiations with Moscow and other powers.

At last year's Labour conference, the Nupe block vote was cast in favour of a unilateralist motion which was passed by 1,244,000 votes.

If Nupe switched to multilateralism, the new policy would need relatively few extra votes.

Dock stewards face court threat as calls for strike grow

By Jimmy Burns, Labour Staff

PORT EMPLOYERS are considering taking legal action against Transport and General Workers' Union shop stewards who are threatening to organise unofficial action in the docks dispute.

In recent outbreaks of wildcat strikes such as those carried out recently by drivers on the London underground railway, employers have been unable to take action because of the difficulties in identifying those most involved.

But in the case of the port industry, TGWU shop stewards have chosen a high public profile with the apparent aim of taking control of the dispute from union leadership, as they did during a strike in 1972.

Port employers may seek court injunctions to force individual stewards to disassociate themselves from strike action, as well as sue for damages.

Such action was taken last week in the east coast port of Hull against one local TGWU shop steward by Associated British Ports. The steward had been identified as an organiser of the unofficial stoppage by more than 600 dockers in a separate dispute linked to a company closure.

At a public meeting in London on Saturday, 65 shop stewards decided to speed up plans for a national strike. The stewards agreed to hold off implementing any action until after the end this week of a High Court hearing taken by the employers against the union. But they have indicated they are prepared to defy a court order if the union loses.

The union has stressed that Saturday's meeting has no "constitutional status" within the union and yesterday issued the shop stewards with a [illegible] plea for restraint.

However, Mr Ron Todd, the TGWU general secretary, is expected to face a further test of his leadership tomorrow when dockers' leaders meet to analyse the results of the national strike ballot.

Some shop stewards yesterday claimed that they and the 25-member docks committee were now "as one" in wanting to push ahead with strike action.

In a turnout of 90.8 per cent, Britain's 9,400 dockers voted by a 3-1 majority last week to strike over the refusal of port employers to negotiate a national agreement on terms and conditions after repeal of the Dock Labour Scheme. The scheme regulated employment conditions in most UK ports.

The National Association of Port Employers claimed yesterday that a substantial number of dockers in small scheme ports had voted against the strike call. The TGWU has officially refused to release a breakdown of the voting.

UK NEWS

Traded options market 'must be given autonomy'

By Stephen Fidler

THE LONDON traded options market should be allowed to run its own affairs and requires significant autonomy from the Stock Exchange, a confidential paper to be presented to the exchange's ruling body has concluded.

The paper, written by Mr Geoffrey Chamberlain, head of the exchange's traded options committee, says the options exchange "has failed over its 11 years to match the performance shown by other exchanges or indeed to capitalise on its underlying market and time-zone potential."

The paper, which says it is wholly supported by the most experienced figures in the London options market, could be set before the Stock Exchange council next month. It recommends that a separately managed entity with financial autonomy be established under the overall wing of the Stock Exchange and urges the sale of seats to members, as happens in most futures and options exchanges. The proposed entity could be set up as early as September.

The report is not explicitly critical of the influence of the Stock Exchange on the options market but concludes that "in key areas its policy is diametrically opposed to the other [Stock Exchange] markets."

Noting the increasingly vociferous calls for a complete split with its parent, the report takes the view that advantages remain to both institutions in preserving a link.

A similar report recommending greater autonomy was produced in 1985, but was not acted on. However, many practitioners now say that the need for reform is urgent, particularly given the success of competing futures and options markets in continental Europe.

Options traders say the options market has been all but ignored by the Stock Exchange, which is run by members with little understanding or interest in options trading. The disaffection of some with the exchange came to a head with significant share trading rule changes made late last year, with considerable potential impact on the options market, on which the traded options market was not formally consulted.

WPP loan, Page 24

Duopoly in telecommunications 'is obstacle to competition'

By Hugo Dixon

EXCLUSIVE RIGHTS held by British Telecom and Mercury Communications to run public telecommunications networks should be abolished, according to a study published today by the Institute of Economic Affairs, the right-wing think-tank.

The study contends that the Government's duopoly policy, adopted in advance of BT's privatisation in 1984, has served to hamper rather than promote the cause of competition.

It is one of the first shots in a battle that is likely to continue over the next year or so as the Government prepares for a thorough review of telecommunications policy in November 1990.

The economists who wrote the study – Professor Michael Beesley and Mr Bruce Laidlaw – both played key roles in advising the Government on telecommunications policy in the early 1980s. They now argue that the duopoly policy has not put sufficient pressure on BT's costs and that the company is still overstaffed by about 75,000 employees.

They say: "Mercury's present strategy offers an insufficient direct challenge to BT on price, quality of service or range of customers served. Although it has the potential to do much more, it is not likely to become a formidable alternative to BT in the long term without a change in policy."

To remedy the situation, they advocate licensing new operators to compete with both BT and Mercury. Those new operators should be free to choose which parts of the country to offer their services in – unlike the present operators who are required to provide nationwide coverage – and to raise foreign finance.

The main opportunity for such competition would consist in creating regional telecommunications companies, which would put pressure on BT to reduce costs and improve its quality of service.

Private companies should also be free to build their own telecommunications network either by having access to radio links or by digging up the roads, so as to provide further competition to the established operators. The Office of Telecommunications, the industry watchdog, is at present planning to liberalise private networks but its ideas are not so radical.

The authors are also highly critical of BT's failure to publish detailed information about its costs. That deters competitors from entering telecommunications markets.

The Future of Telecommunications. Institute of Economic Affairs Research Monograph 42. 2 Lord North St, London SW1P 3LB. £5.50 plus 50p p&p.

BT aims data service at big business

By Hugo Dixon

BRITISH TELECOM will offer a new data communications service from next month in an attempt to prevent its large business customers from leaving the public network to set up their own services.

The new service, details of which will be announced this week, will be charged on a flat-rate basis. At present, companies using BT's public data network pay a charge related to the amount of traffic they send through the network.

That has led to companies migrating from the public network to their own private networks. BT is aiming to stop the trend through a new charging structure and by removing the difficulties companies experience in running their own networks.

Dilemma over status of Kurdish 'refugees'

By David Barchard

THEY SIT, huddled in groups, drinking tea from small glasses and watching football on television. Their bushy moustaches and drab suits identify them as the men of an Anatolian village, but this is Dalston in the East End of London.

They have been arriving by the planeload from northern Cyprus and Istanbul since the end of last month. So far, about 600 villagers from the province of Kahramanmaras, in south-eastern Turkey, have arrived, almost all of them men.

The Home Office, faced by what looks like an attempt at migration en masse, is trying to establish whether the men are, as the organisations sponsoring them say, ethnic Kurds and Shi'ites fleeing from a repressive government, or simply would-be migrants seeking work abroad.

Community groups in the East End have been trying to accommodate the villagers while their application is heard. The groups' resources are strained to breaking point.

The influx has no recent parallels. Turkey is the source of a steady trickle of refugees seeking political asylum in Britain. There were 86 applications in 1987 and 500 in 1988. That number has been easily exceeded in the last month.

What is causing the exodus? Volunteers working with the villagers point to what they see as general oppression of the Kurds, combined with growing fears about a revival of far-right-wing activity in Kahramanmaras.

I was only allowed to speak to two villagers, but they described a fairly familiar picture of bleak local conditions.

They also appeared to be committed Kurdish nationalists.

There are around six million Kurdish speakers in Turkey. Other planeloads are said to have left for Sweden, Switzerland and Greece.

Turks I spoke to at a kebab house in Dalston seemed to accept the villagers' claims, launching swiftly into their own bitter personal tales of prison and torture.

A group of middle-class students from Ankara's elite Political Science Faculty took a different view. "Of course there is torture in Turkey," they said. "But these men are basically here to look for work."

Banks change rules on large clearances

By David Lascelles, Banking Editor

THE CLEARING banks are to introduce changes to clearing practices for large payments which will encourage a shift from paper to electronic means, but might also affect the payment habits of many businesses.

The changes affect the Clearing House Automated Payments System (Chaps), the five-year-old electronic system designed to make guaranteed same-day payment of large transactions, and Town Clearing, the paper-based system of same-day clearing for bank branches located in the heart of the City of London.

In July, the cut-off time for same-day payment through Chaps is also to be advanced from 3.00pm to 3.10pm. Although the change is small, Chaps executives say it will make the system more attractive.

The change will be supplemented by a more radical move next February to reduce the lower limit on Chaps payments from £7,000 to £5,000. That will result in a considerable increase in the number of payments eligible to be transmitted through Chaps.

But, offsetting the reforms, the lower limit for payments in Town Clearing will be raised sharply, from £10,000 to £100,000, next November. That is expected to reduce Town Clearing volume by about a third and make it more difficult for certain types of business to make and receive same-day payments.

The Association for Payment Clearing Services (Apacs), the parent company for both Chaps and Town Clearing, has notified the trade associations and organisations representing the main users of the high-value clearing services.

According to Mr Michael Williamson, Apacs deputy chief executive, there had been some objections but he expected the changes to go ahead.

The Stock Exchange, members of which are among the biggest users of clearing services in the City, confirmed that it had been notified of the changes and had made representations because they would affect stockbrokers' payments.

Owen wins backing for coalition with Labour

By Philip Stephens, Political Editor

DR David Owen, the SDP leader, yesterday won the support of his party for his efforts to seek a constitutional coalition with the Labour Party as part of the SDP's partial withdrawal from the national political stage.

Delegates at a weekend meeting of the Council for Social Democracy endorsed plans for the party to react to the sharp fall in its membership and resources by adopting a selective approach to fighting elections.

Dr Owen's strategy of courting Labour, however, was directly challenged by one leading party figure and generated unease about the SDP's long-term future among many others.

Mr John Martin, who is challenging Mr John Cartwright for the SDP presidency, argued that a significant shift towards Mr Neil Kinnock, the Labour leader, would risk driving remaining SDP supporters away.

A motion critical of Dr Owen's public statements in support of Mr Kinnock's efforts to modernise Labour and calling for the party's three MPs to swear an oath of allegiance was withdrawn only after heated debate.

Dr Owen insisted that the SDP would continue to make a "distinctive" contribution to British politics. He emphasised that the party remained at odds with Labour over defence and electoral reform.

He underlined his view that Mr Kinnock had no prospect of defeating the Government without a wider coalition.

Dr Owen's proposed coalition envisages an all-party opposition taking power from Mrs Thatcher on a two-year programme with an agreed general election under proportional representation at the end.

Its joint programme would include defence of the NHS and restoration of the social security system.

Clouds in the Anglo-Soviet sky

Robert Mauthner writes on the latest tit-for-tat expulsions

THE tit-for-tat expulsion of 11 British diplomats and journalists from the Soviet Union, after an equivalent measure against Soviet diplomats and journalists in Britain, has come as a bombshell in the much improved climate of East-West, and specifically Anglo-Soviet, relations.

Sir Geoffrey Howe, the Foreign Secretary, emphasised yesterday that he had "incontrovertible evidence" that the Soviet citizens expelled from Britain were involved in activities "incompatible with their status" – a euphemism for spying. But the Government must nevertheless have weighed very carefully a move that might undo for some time to come much of the steady improvement in its relations with the Soviet Union.

The British decision that prompted the retaliatory expulsion of British diplomats by Moscow has come after two or three years of remarkable international détente, the outcome mainly of strenuous attempts by Mr Mikhail Gorbachev, the Soviet leader, to put relations with the West on a more co-operative footing.

The past 18 months have seen an important arms control agreement on the abolition of all medium-range, land-based nuclear missiles, the opening of conventional arms talks in Vienna, the withdrawal of Soviet troops from Afghanistan and close co-operation between the US and the Soviet Union in working out the Angola and Namibia settlements.

At the same time, relations between Britain and the Soviet Union have been, rarely, if ever, better. Mr Gorbachev's visit to Britain last month, during which his amicable, if outspoken relationship with Mrs Margaret Thatcher was cemented and he had lunch with the Queen at Windsor Castle, was seen as something of a milestone.

The fact that the Queen was invited to visit the Soviet Union appeared to be an indication that both sides had decided to let bygones be bygones and that relations between the two countries had entered a new era.

It now looks as if the obstacles that have so often bedevilled Anglo-Soviet relations in the recent past have still not been overcome. Sir Geoffrey claimed yesterday that Soviet intelligence-gathering operations in Britain were "the one area" that still clouded relations with Moscow. In all other respects, they were better than before.

Sir Geoffrey Howe: warned of increased espionage

Britain has certainly been among the toughest of all Western nations in clamping down on Eastern bloc spying activities over the past 20 years. The most dramatic action of its kind was taken in 1971 by the then Foreign Secretary, Sir Alec Douglas-Home (later Lord Home), when 105 Soviet embassy and trade mission personnel were expelled from Britain, a step that put Anglo-Soviet relations into deep freeze for years.

Four years ago, Britain aroused another serious row when it ordered out of the country 25 Soviet embassy staff, journalists and trade officials, after they had apparently been identified as intelligence agents by Mr Oleg Gordievsky, the top Soviet intelligence official in London, who had defected to the West. There followed another tit-for-tat round of expulsions, which ended up with both sides expelling a total of 31 of each other's citizens.

However, the British security services continued to be unhappy about Soviet and other Eastern bloc intelligence activities.

The Soviet KGB intelligence agency and its military counterpart, the GRU, are said by officials to have built up their strength in Britain over the past three years to 60 per cent of their level before Mr Gordievsky's defection.

Nor has the latest British action come entirely without warning. Sir Geoffrey accused Moscow of stepping up its espionage activities in a speech at an international defence conference in Munich early this year and he is also understood to have brought up the matter in bilateral talks with Mr Eduard Shevardnadze, his Soviet opposite number, on more than one occasion.

Solicitors urge fees for insurance sales

THE LAW Society is calling on the Government today to end the system of paying investment and insurance agents by "hidden commissions". It says agents should charge fees for arranging sales of policies.

The society said the present market, in which life policies are sold at prices that include commission, "is reminiscent of the worst days of resale price maintenance."

In a letter to Lord Young, Trade and Industry Secretary, Mr Richard Gaskell, president of the Law Society, said: "If life policies were baked beans, the situation would not be tolerated. A manufacturer would not be allowed to provide tins of beans which would then be resold at different prices to individual retailers, with fewer beans going into the tins which were sold at lower prices.

"Yet this is what is happening to those who invest in life policies, because the more of their money life companies pay to intermediaries in commission, the less will be invested for them."

Nottingham to gain Civil Service jobs

ABOUT 100 Civil Service jobs are to be moved from London to Nottingham, the Department of Transport has announced.

The department's Driver Testing and Training Division, which is responsible for 2,000 driving instructors, will move from Westminster to the converted Lamberts factory in Nottingham in June next year.

OBITUARY

Sir John Hicks

SIR JOHN HICKS, who died at his home at Blockley, Gloucestershire, on Saturday, aged 85, will be remembered for important contributions in almost all fields of theoretical economics. He became Britain's first Nobel laureate in economics in 1972, when he shared the Swedish award with Mr Kenneth Arrow, the US economist.

Sir John became a fellow of the British Academy in 1942 and was knighted for services to economics in 1965. He was educated at Clifton College and Balliol College, Oxford. He taught at the London School of Economics from 1926-35, and was professor of economics at Manchester University from 1938-46.

He then moved to Oxford where he was a fellow at Nuffield College before becoming Drummond Professor of Political Economy, a post he held until 1965.

In 1935, Sir John married Ursula Webb, another distinguished economist, with whom he collaborated on several books and who died in 1985.

Sir John received his Nobel prize for work in "general equilibrium and welfare economics". Much of that work is contained in his classic book Value and Capital (1939).

But Sir John is equally famous for his contributions to macroeconomics and monetary theory.

In 1937, his paper Mr Keynes And The "Classics" made a somewhat simplified version of Keynesian economics accessible to a whole generation of economists. The paper introduced the famous IS/LM model, which has been a mainstay of textbooks for 50 years.

Sir John also made important contributions to wage theory, growth and capital theory, and the theory of economic history.

He was, as the economist Christopher Bliss has written, "the product of a generation which was the last to produce in abundance all-round economic theorists – economists who could turn their minds to almost any problem." Few economists this century were either better liked or more respected.

Motor industry deficit up by 24% as imports surge

By Kevin Done, Motor Industry Correspondent

THE MOTOR industry trade deficit jumped by 24 per cent to a record £1.65bn in the first quarter of 1989 in the wake of a further surge in car imports.

The level of imports has remained high as a result of the continued strength of the UK vehicle market, with car and commercial vehicle registrations climbing to record levels in the first four months of the year.

The Society of Motor Manufacturers and Traders, the motor industry trade association, gave a warning yesterday that there was little prospect of a reduction in the deficit in 1989.

On the basis of the first quarter's figures, it was "more likely" that the motor industry trade balance would deteriorate further, it said.

The society commented: "The current strength of the UK market will ensure that the volume of imports will remain strong."

The value of car imports rose by 19 per cent in the first three months to £1.84bn.

In spite of a 23 per cent increase in the value of car exports to £616m, the £1.22bn deficit in passenger car trade still accounted alone for 74 per cent of the overall motor industry trade deficit.

Last year the deficit jumped by 53 per cent to a record £6.11bn and accounted for 30 per cent of last year's total UK visible trade deficit of £20.34bn.

Most of the deficit is with other European Community countries, in particular West Germany. In 1988, the deficit with that country in cars was £2.7bn or 44 per cent of the total deficit.

In the first four months of 1989, imports captured 55.85 per cent of the UK new car market compared with 54.52 per cent a year ago.

According to the SMMT, "the sourcing policies of several UK-based manufacturers have contributed to the rise in imports."

In the first three months, registrations of tied imports – cars imported by manufacturers that also have production in the UK – rose by 20 per cent, while sales of independent imports rose by 4.5 per cent.

Sales of UK-built cars by Vauxhall, the UK subsidiary of General Motors of the US, declined marginally in the first four months, for example, while its sales of cars imported from GM's continental European plants jumped by 31 per cent.

In parallel to the 24 per cent jump in overall imports to £3.66bn, the UK motor industry also increased exports by 24 per cent to £2bn, but was unable to prevent the deficit from widening.

The most positive development was a 26 per cent increase in the value of components exports to £965m. The industry had feared that parts exports would be depressed by the strength of sterling.

The value of car exports rose by 23 per cent to £616m, largely because of the big jump in exports by Peugeot Talbot from its Ryton assembly plant in Coventry and the build-up of exports by Nissan from its Sunderland assembly plant. Jaguar also increased the value of its exports in the first quarter.

Exports of light commercial vehicles increased by 112 per cent in value to £62m.

UK MOTOR TRADE (£M) first quarter

	1989	1988
Exports		
Cars	616	501
Comm. vehicles	134	103
Parts and accessories	965	789
Others*	292	251
Imports		
Cars	1,837	1,538
Comm. vehicles	426	298
Parts and accessories	1,232	1,003
Others*	162	107
Trade balance		
Cars	−1,221	−1,037
Comm. vehicles	−292	−195
Parts and accessories	−267	−234
Others*	130	144
Total balance	−1,649	−1,322

*Others includes agricultural tractors, dumpers, trailers, caravans, industrial works trucks and freight containers.

Source: Society of Motor Manufacturers and Traders and Customs and Excise

Tories urge tax break on servicemen's home funds

By Ralph Atkins, Economics Staff

MORE THAN 100 Conservative MPs are pressing the Government to back a scheme that would give members of the armed forces tax relief on savings earmarked for future house purchases.

The plan would give the services similar tax benefits to civilian home owners, without compelling them to become absentee landlords when on service away from home.

It is intended to help stem what some backbench MPs see as a dramatic rise in the numbers leaving the services prematurely through fear of being unable to buy their own home.

Amendments to the Finance Bill – now in its committee stage in the House of Commons – to introduce the scheme have been backed by 110 Conservative MPs. Supporters include Sir William Clark, head of the Tory backbench Finance Committee.

The reform has also been received sympathetically by the Ministry of Defence and given support by Halifax Building Society.

However, the Treasury, which has the final say over tax policy, is likely to argue that its policy is not to give to particular groups of individuals tax concessions that could distort the tax system.

Mr Julian Brazier, Tory MP for Canterbury and one of the scheme's backers, said the army – the service most likely to benefit from the amendment – was shut out of the property market because most men were either abroad or dispersed around the UK. He said: "We want to give them the self-respect of dealing with their own housing needs."

Only about a quarter of the army are estimated to own their own homes, compared with nearly two thirds of all civilian households.

The scheme would give tax relief on rent paid on servicemen's current accommodation and on contributions to a fund operated like a PEP and eventually used to buy a house. Cash would be paid back into the fund and limited to the equivalent of tax relief available on a £30,000 mortgage.

Car phone company is taken over

By Terry Dodsworth, Industrial Editor

DIAL-A-PHONE Mobile, the telephone services group, is taking over Excell Communications, the car phone company, in a £13.5m deal that will bring further consolidation in the mobile telephone industry.

Excell, which has about 17,000 customers, is one of about 50 air time providers licensed to market Cellnet and Vodafone car phone systems to subscribers. It joins a number of smaller companies that have changed hands over the last year as a group of larger national operators have embarked on takeovers and rationalisation.

Dial-A-Phone was founded only eight years ago to take advantage of liberalisation in the UK car market. When British Telecom's monopoly powers were trimmed, the company was set up to install and maintain office equipment such as telephones, telexes and facsimile machines. It expects a turnover of £250m this year.

Excell's main shareholder is Technophone, a fast-growing portable telephone manufacturing company, which had 80 per cent of the shares.

Dial-A-Phone says it will continue the close association with Technophone in the UK, under which it is the main distributor of Technophone portable handsets. It is aiming to expand the subscriber base inherited from Excell.

Technophone, based at Camberley in Surrey, is launching a new factory in Hong Kong. The company had a turnover last year of about £50m.

Poll tax registration begins in earnest

By Richard Evans

THE accident-beset introduction of the community charge, or poll tax, in place of domestic rates reaches a key stage today when local authorities receive powers to demand information on registration.

The task of registering 36m adults in England and Wales begins in earnest as the rhetoric against the introduction of the controversial tax stops and the hard work begins. It is in the interests of all local authorities to collect the charge as efficiently as possible in order to maximise receipts. The timescale is short.

Registration has to be completed by December ahead of the introduction of the charge in England and Wales on April 1 next year. The poll tax was introduced in Scotland last month. The regulations that come into effect today give local community charge registration officers the right to demand information in order to compile the local register, although the regulations will technically not be debated in the Commons until tomorrow after an opposition motion to reject them.

Each local anthority is responsible for compiling its own register, but reminders to residents who do not fill in their registration forms will be sent out after about three weeks.

Penalties for failure to return completed forms are likely to be threatened from about August. The initial fine is £50, but that is increased to £200 if no form is returned within a further 21 days and further fines of £200 can follow after 21-day periods.

Some councils have already sent out registration forms before the May 22 deadline because of the short timescale. Southwark council in London, for example, has already received back 50,000 out of 109,000 sent.

Inner London councils claim they face a particular obstacle because of the transient nature of their population and because of high populations of students. In some areas, more than a quarter of the population may move in any one year.

Boroughs with wealthier residential property will be able to cut costs by having a high proportion of residents pay the charge annually or by banker's order, but the usual method will be in 10 instalments.

That will inevitably lead to an avalanche of paperwork and a new industry is springing up to help local authorities with the administrative burden. One estimate is that the community charge will involve 380m transactions a year.

It is generally accepted that the charge will cost about 2½ times as much to collect as the rates, although those costs are balanced by the fact that twice as many will pay the tax, compared with the 17m heads of households who now pay rates.

All people aged more than 18 are liable for the charge apart from a limited range of exemptions such as 18-year-olds at school (for whom child benefit is payable); monks and nuns in enclosed orders; resident hospital patients and people sleeping rough.

The Department of the Environment estimates that more than 9.5m people will receive some help to pay their poll tax and 5m will be given the maximum 80 per cent rebate.

A detailed questionnaire, sent to all local authorities by the department earlier this month seeking details of their implementation programme, is due to be returned this week.

Offshore yard work 'will rise'

By Steven Butler

FABRICATION YARDS that build steel structures and equipment for the offshore oil industry are expected to experience a sharp increase in their workload over the coming years, according to a report by the UK Module Constructors' Association, which represents them.

The prediction is good news for the fabrication industry, which suffered when many projects were cancelled after the oil price collapse of 1986. A number of yards were subsequently closed and their capacity has since then been drastically curtailed.

The association foresees an increase in work from 7.5m man-hours in 1988 to 20.0m man-hours in 1991. Those figures are based on current projects planned by the oil companies, and assume a certain amount of unanticipated delays to projects.

Capacity in the industry has continued to fall over the past year, declining from 30.7m man-hours a year at the beginning of 1988 to an estimated 27.1m man-hours today.

None the less, maximum projected demand in 1991 would absorb only about 70 per cent of the industry's capacity, resulting in continued strong competition.

A revival in orders has been spurred by the perception that oil prices will stay about $18 a barrel or higher, as well as by a series of new development concepts that have cut fabrication and installation costs and made use of existing platform and pipeline installations.

The industry has maintained competitiveness partly by keeping pay rises below the rate of inflation.

However, the association warned that proposals to subject the offshore industry to European Community rules on pnblic procurement would endanger its future.

It argues, as does the Government, that the industry is already operating in a highly competitive environment and that EC rules to encourage a fair tendering system would result in delays and possible cancellation of some developments. It fears competition from subsidised yards.

Cooper Rolls wins £50m turbine orders

By Richard Tomkins, Midlands Correspondent

COOPER ROLLS, a joint venture between Rolls-Royce of the UK and Cooper Industries of the US, is to supply 11 Coberra gas turbine systems worth a total of £50m to be used offshore in the North Sea and the Gulf.

Norsk Hydro, Conoco and BP have each ordered three sets based on the industrial version of Rolls's RB-211 engine which will be used for gas compression and electricity generation.

In the Gulf, Bechtel has ordered two Avon-powered sets to generate electricity on the North Dome platforms for the Qatar General Petroleum Corporation.

The association between Cooper and Rolls dates back to the early 1960s when they joined to pioneer the concept of deriving industrial gas turbines from aero engines.

More than 200 Rolls-Royce turbines are in use offshore around the world, more than half of them in the North Sea.

Retailers are 'ignoring many opportunities'

By Maggie Urry

CHANGES in the population offer retailers opportunities to attract customers by making the shops they run different from others, says a report from Verdict Research, the retail research group.

Verdict commissioned a survey of shoppers' attitudes from MAS. The inquiry, carried out last month, showed much variation in responses according to age, socio-economic group and region. Linking the research to trends in the population means that "very significant gaps in the market remain," says Verdict.

So far, retailers have been slow to target particular customer groups and, the report says, "because growth has been relatively easily attained, several inferior retailers have managed to get by."

The survey suggests that more than half the over-55 age group think clothes shops "do not really cater for people of my age." Nearly 60 per cent of the 2,338 people questioned said that shop staff were not able to advise on the products they sold.

Verdict on Retail Demographics; Verdict Research, 112 High Holborn, London WC1V 6JS. £450.

Midlands finance house moves into stockbroking

By Richard Tomkins, Midlands Correspondent

NEVILLE, AN old-established Birmingham finance house, has formed a stockbroking company called G. R. Dawes & Co as part of its plan to become one of the biggest financial services groups in the Midlands.

It is also launching a venture capital fund that will invest in Midlands companies, and an investor relations division that will aim to improve relations between Midlands quoted companies and the City.

The moves follow the acquisition of Neville last year by Bromsgrove Industries, a quoted mini-conglomerate run by Mr Bijan Sedghi, a 36-year-old corporate lawyer.

Up till then, Neville was best known as an investment manager, as share registrar for about 40 Midlands companies, and as owner of BRI Information Services, a company that tracks directors' shareholdings.

At the beginning of this year, Mr Sedghi installed Mr Gary Smith, formerly of the merchant bank Arbuthnot Latham, as Neville's chief executive with a brief to expand the operation.

Eventually Neville is likely to be floated on the stock market.

The new stockbroking company, in which Neville will have a majority stake, has been formed through the acquisition of the Birmingham firm I. A. Pritchard.

It will be headed by Mr Peter Hobday, a one-time chairman of Birmingham Stock Exchange, and Mr Graham Owens.

The company will concentrate mainly on private client investors, providing services such as portfolio valuation and reviews, research into Midlands companies, and advice on traded options, unit trusts and tax.

The venture capital arm, which will form part of Neville Industrial Securities, will be headed by Mr Norman Holmes, a former chief executive of the West Midlands Enterprise Board.

Neville also plans to undertake corporate finance work, particularly on mergers and acquisitions.

The investor relations arm, also part of Neville Industrial Securities, will be run by Ms Chrissie Twigg, a former smaller companies analyst at Citicorp Scrimgeour Vickers, the City stockbrokers.

Its target market will be Midlands quoted companies capitalised at up to £200m.

Government urged to set broad money goal

By Peter Norman, Economics Correspondent

THE GOVERNMENT should return to its pre-1985 policy of setting a growth target for broad money with the intention of reducing and stabilising the inflation rate, according a leading British monetarist.

In a study published today, Mr Tim Congdon, economic adviser to Gerrard and National, the discount house, argues that if growth of broad money could be held stable there would be an end to stop-go economic cycles in Britain.

Instead of using the M3 measure of broad money at the centre of British monetary policy in the early 1980s, the Government should switch to using M4, he said.

Mr Congdon said by stabilising the growth of credit and broad money, the Government had succeeded in eliminating stop-go cycles by 1985.

Since then, the Government's "muddled pragmatism" had resulted in a return to stop-go cycles.

Monetarism Lost, Centre for Policy Studies, 8 Wilfred Street, London SW1E 6PL. £6.50.

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Lords open Lonrho contempt hearing today

By Raymond Hughes, Law Courts Correspondent

THE MOSES Room in the House of Lords will today be the setting for what is believed to be an unprecedented hearing before the Law Lords.

Five Law Lords will begin hearing arguments about whether Lonrho, the international conglomerate headed by Mr "Tiny" Rowland, and the Lonrho-owned Observer newspaper have been guilty of contempt of the House of Lords.

It is thought to be the first case of contempt of the House involving Law Lords, or – to give them their proper title – Lords of Appeal in Ordinary.

The possible penalties are imprisonment or a fine, or both.

Mr Rowland, Sir Edward du Cann, Lonrho's chairman, two other Lonrho directors, a solicitor and a barrister who have acted for the company in litigation over the House of Fraser dispute, as well as Mr Donald Trelford, the Observer's editor, have been instructed to attend the hearing with a view to being cross-examined to determine whether any of them was implicated in any contempt.

Such cross-examination would itself be unprecedented: hearings before the Law Lords are normally limited to submissions on the law by counsel.

The contempt alleged relates to the publication on Thursday March 30 of a special edition of the Observer newspaper containing extracts from a leaked

Donald Trelford: may face cross-examination

copy of the report by Government inspectors into the 1985 takeover of House of Fraser by the Egyptian Fayed brothers.

Copies of the newspaper were sent to four of the five Law Lords due to hear Lonrho's final attempt to force Lord Young, the Secretary for Trade and Industry, to publish the report without further delay and to refer the takeover to the Monopolies and Mergers Commission.

Last Thursday, the Law Lords handed down a judgment dismissing Lonrho's appeal.

The question of possible contempt was raised by Lord Keith, the presiding Law Lord, at the outset of the appeal last month. Later, he formulated three matters on which he said the Law Lords would want to hear argument today:

- Was there a contempt of the House by Lonrho and/or its directors in procuring distribution of the newspaper to them?
- Was the general publication of the special issue a contempt under the 1981 Contempt of Court Act or s wider contempt of the House of Lords?
- If publication did constitute contempt, who was responsible?

If it appears that the matter goes beyond the 1981 Act, the lords may invoke an 1803 resolution of the House about Private Solicitation of Members.

According to Erskine May, the book regarded in legal circles as the "bible" for parliamentary procedures, the House resolved that "the private solicitation of Members on matters of . . . judicial proceedings" was a breach of privilege and that it would similarly be a breach "to influence them in the discharge of their duties."

The Law Lords have already been told that copies of the Observer were sent to them through "an administrative error" for which Lonrho's directors "unreservedly" apologised.

A key question is likely to be the extent to which Lonrho directors were responsible for the decision to publish the newspaper's special issue.

Apart from its significance in relation to the then pending appeal – as publication of extracts from the Fraser report might be seen as pre-empting the lords' decision on whether the report should be published – it is a question with potentially embarrassing implications in the area of press editorial independence from proprietorial interference.

In addition to requiring the individuals involved to swear affidavits, the Law Lords have ordered disclosure of documents including minutes of Lonrho board meetings, communications between Lonrho and the Observer and Mr Trelford and details of meetings and communications between Lonrho and its lawyers.

Sitting with Lord Keith today will be Lord Templeman, Lord Griffiths, Lord Ackner and Lord Lowry.

Mr John Laws, a Treasury junior counsel (barrister retained to act for the Crown), will act as prosecutor. He appeared for the Government at the inquest into the Gibraltar shootings. He has been instructed by Sir Patrick Mayhew, QC, the Attorney General, as *amicus curiae* (friend of the court) to give independent assistance.

Mr Laws will be assisted by Mr Philip Havers, son of Lord Havers, Lord Mackay's predecessor as Lord Chancellor.

The alleged contemnors have briefed a battery of Queen's Counsels. Lonrho will be represented by Mr Alan Rawley, QC, a commercial fraud specialist who is also defending Mr David Mayhew, of stockbrokers Cazenove & Co, in the forthcoming Guinness trial, and by Mr Anthony Arlidge, QC, a contempt specialist.

Mr Rowland and his fellow Lonrho directors – Sir Edward du Cann, Mr Paul Spicer and Mr Robert Dunlop – hsve briefed Mr Gordon Pollock, QC, a leading commercial silk with a combative reputation, and Mr Robert Wright, QC.

Appearing for the Observer and Mr Trelford will be Mr Gavin Lightman, QC, a tenacious advocate whose practice has recently widened.

Mr John Fordham, a partner in Stephenson Harwood, Lonrho's City solicitors, and Mr Andrew Fletcher, a barrister who has acted for Lonrho, will be represented by Mr John Chadwick, QC, a company law specialist.

Today's hearing may begin with a request from Lonrho that the five Law Lords disqualify themselves from dealing with the matter on the ground that they instituted the contempt proceedings themselves and should not be judges in their own cause.

The hearing is expected to last at least until Thursday. If it is not completed by then, it will be adjourned until June 6.

Senior manager shortage threatens S Wales growth

By Anthony Moreton, Welsh Correspondent

THE ECONOMIC boom in south Wales is endangered by a serious shortage of senior managers, especially in the finance, marketing and technical areas.

That is the main conclusion of a report from the PA Consulting Group in conjunction with the Confederation of British Industry. Two out of three companies questioned reported "significant difficulty" in recruiting at senior levels.

Part of the difficulty, PA stated, was that many managers outside Wales still had an image of the place as being dominated by heavy industry.

Mr Peter Bedford, PA's regional manager for south Wales, said at the opening of the consultancy's office in Cardiff: "The need for continued marketing of the facilities, amenities and quality of life in South Wales is fundamental to the continued success of industry and commerce in the principality."

The threat hanging over the financial sector is all the more disappointing as the Government has led a big push to attract more financial services concerns into the area.

COMPANY NOTICES

APPOINTMENTS

Reorganisation at Racal Communications

■ The RACAL DATA COMMUNICATIONS GROUP has been reorganised. Mr Tim Holley has become deputy chairman and continues as head of Racal's data communications operatioos in Europe. His new position with RDCG will ensure closer collaboratioo betweeo operations in the US and Europe.

Mr Ed Bleckner remains chairman of Racal-Milgo in Florida and a director of RDCG, but also becomes chairman of the Racal Corporation in the US.

Mr Matt Kenny joins the board of RDCG and becomes responsible for all the Racal data communications operations in north America.

■ Sir Nicholas Henderson, e former British Ambassador, is joing SOTHEBY's as a ooo-executive director at the beginning of June.

■ At LLOYDS DEVELOPMENT CAPITAL Mr Robert Ashmead has joined the board of directors. Mr Ashmead, formerly a director of County NatWest Ventures, joins Lloyds Development Capital and will conceotrate on buy-ins and buy-outs.

■ BRITVIC SOFT DRINKS has appointed Mr Nigel Symington as its new marketing director. He was a senior consultant with the P.A. Consulting Group.

■ Mr David Gallagher has joined the board of HESTAIR. He is *managing director* of HMS, the largest personnel services company within the group's UK division.

■ Following the appointment of Mr Paul Feldman as chief executive of PARKFIELD GROUP's entertainmeot division, he will now have responsibility for Parkfield Communications and Parkfield Micro-X, which have been brought within the division.

In the manufacturing division Mr Richard Truscott has been appointed managing director, engineering products, and Mr Keith Evans has become managing director, pressings and fabrications.

■ LYLE & SCOTT, knitwear manufacturers, has appointed Ms Frances Teckham, formerly merchandise manager, to the main board. She becomes merchandise director and will continue to oversee all aspects of product design and development.

■ Mr Douglas Bedford has been appointed group financial director of the Manchester-based carrier bag manufacturer, GAYNOR GROUP. He joins from Crowthers Menswear where he was financial director.

Mr Mike Handley *(above)* has been appointed chairman of the FEDERATION OF BAKERS. He is managing director of British Bakeries, the bread and morning goods division of Ranks Hovis McDougall.

■ Mr Tony Eckford and Mr Barry Hauxwell have been appointed joint corporate managing directors of PRESS OFFSHORE. They were previously divisional managing directors. Mr Arthur McQuillan has also joined the main board. He has taken on additional responsibilities as general manager of the construction operations at Wallsend and in Humberside.

■ Mr Richard Jasinski has taken np his appointment at Cambrian Works, Cardiff, as managing director of three POWELL DUFFRYN companies – Powell Duffryn Wagon Co, Powell Duffryn Tools and the Gloucester Railway Carriage Company. He joins from a Swindon-based engineering company, where he was managing director.

■ TURRIFF CONSTRUCTION has appointed three managing directors. Mr Brian Whittaker becomes managing director of Turriff Midlands, Mr Joseph Glen, managing director of Turriff North and Mr Leslie Wealthdale, managing director of Turriff Projects.

■ Mr Roy Parnell and Mr Bob Slater have been appointed to the board of B & K STEELWORK FABRICATIONS.

■ ROBSON'S DISTRIBUTION SERVICES has appointed Mr Paul Demet as finance director. He was previously financial controller.

■ Mr William Van Overdijk has joined the board of DAKS SIMPSON GROUP as designer and technical director.

■ SHORT BROTHERS has appointed Mr Alex F.C. Roberts as deputy managing director. He continues to be responsible for corporate sales and marketing activities, and for public affairs. He will also assume responsibility for the commercial aircraft division.

■ Following the bid for Bassetts by Cadburys, Mr Richard Clemons, the vice chairman of Bassetts, has been appointed as a non-executive director of LEADBEATER & PETERS GROUP, the optical company.

■ Mr Alistair Hannan has joined the board of THE MORTGAGE AGENCY. He was general manager.

■ Mr J.A.W. Samuel has been appointed group finance director at WHESSOE. Mr F. Middlemiss, an executive director, has retired.

■ Mr Peter McMurtrie has become chairman of MUNRO CORPORATE. He replaces Mr John Bleby, who remains a non-executive director.

■ Mr Edward Weeks, director of the plastics division of BASF United Kingdom, has been appointed a director of ELASTOGRAN UK, another BASF group company.

■ Mr Stephen P. Birkeland has been made a director of Harlow-based MINNESOTA 3M RESEARCH, a subsidiary of 3M United Kingdom. He succeeds Mr Doug Dybvig who is returning to the US as director of a graphic research laboratory in St Paul, Minnesota.

■ Ms Rosemary Cooke has been appointed marketing director of BEECHAM TOILETRIES and Mr Roger Scarlett-Smith marketing director of BEECHAM BOVRIL BRANDS, both have been promoted from head of marketing.

■ Mr Angus Tulloch has been appointed a director of STEWART IVORY & CO.

■ Lord Nelson has joined the board of the REGUS GROUP.

■ Y.J LOVELL (HOLDINGS) is making the following appointments on June 1. Sir Norman Wakefield becomes non-executive chairman. Mr Andrew Wassell, group managing director since April 1987, becomes chief executive. Joining the holdings board are Mr Tony Harbour, who last year was appointed group head of personnel and organisation, and Mr Paul Wiltshire, managing director of Lovell Homes since April 1987. Mr Jim Laing is retiring.

■ Mr Geoffrey Hoskins, managing director of EASTBOURNE WATER, has been elected its executive chairman.

■ Mr David Barnes and Sir Peter Thompson have joined BRITISH & COMMONWEALTH as non-excutive directors.

COMPANY NOTICES

CONTRACTS & TENDERS

COURSES

RENTALS

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A STATEMENT TO THE SHAREHOLDERS OF

BLUE ARROW PLC

FROM

PETER DE SAVARY

AND

CHAINROCK CORPORATION NV

IN REPLY TO A CIRCULAR TO SHAREHOLDERS DISTRIBUTED ON 19TH MAY 1989

The Board of Directors of Blue Arrow PLC announced today in its Circular that in its interim statement for the six month period ended 30th April 1989 it intends to make a provision of £6.3 million for the America's Cup expenditure and to make full provision, *inter alia,* for the Loan of £25 million to Chainrock Corporation N.V. ("the Loan").

The purpose of this statement is:

1. To explain fully to you the background to each of the above transactions; and
2. To bring to your attention material facts that have been omitted from the Circular; and
3. To inform you of our reasons for disagreeing fundamentally with your Boards reason's for making full provision for the loan.

THE AMERICA'S CUP

In early 1987 your Board initiated *an approach through* an intermediary, to solicit my services in connection with a Challenge that Blue Arrow wished to sponsor for the America's Cup. This led ultimately to a new subsidiary being formed, Blue Arrow Challenge PLC. Your company has control of the Board of Directors of Blue Arrow Challenge PLC, who decide what funds are reasonably required for the campaign. Blue Arrow financial personnel have supervised and accounted for all financial matters in relation to the Challenge; financial matters apart, I am responsible for the day-to-day conduct of the Challenge. Your Board considered at the time that such sponsorship of a major international sporting event would serve to promote the Company. My negotiations throughout were with various directors of your Board, including Mr Berry (Chairman and Chief Executive), Mr Atkin (Deputy Chairman), Mr Lowe, and Mr Gray (Company Secretary) all of whom were present at the discussions held on the 29th of November 1988 when the agreement was reached to vary the Shareholders Agreement to enable Blue Arrow to continue its sponsorship of the Challenge.

THE FACILITY AGREEMENT.

Background

In September 1988, the Board of Blue Arrow PLC approached the group of companies in which I am involved to discuss the possibility of participating in a number of property ventures with which we were concerned. Your Board explained that Blue Arrow was seeking to strengthen its asset base by diversifying into property investment. Several projects were reviewed by your Board; the executive with responsibility for conducting that review was Robert Holt. As a result of that review, Blue Arrow expressed a strong interest in participating in the Canvey development. Your directors were aware at the time of three other substantial companies who were negotiating *an investment in the development on terms substantially identical* to those on which Blue Arrow was ultimately to enter into the venture and requested that Blue Arrow be the preferred partner; full details of those negotiations have since been made available by us to your present Board.

Negotiations

On 11th November 1988, a meeting was held to discuss the Canvey Island project and was attended by four members of the then Board, namely Messrs Berry, Atkins and Fazakerley, plus Messrs Holt, Gray and Snell (Property Services Manager) when it was agreed in principle to progress the transaction, subject to contract and due diligence by your company's advisers. In the negotiations that followed, your Board was assisted by a team of advisers which included its solicitors, Allen & Overy and, we would assume, its merchant bankers and brokers. The negotiations were conducted openly and as far as we were aware with the full knowledge and approval of your Board. On this point, the Circular is confusing to shareholders in its use at different stages throughout the document of the expressions — "the Board," the "Directors" and the "non-executive Directors," even though the Circular contains definitions of these terms elsewhere. Set out below is a verbatim extract from the Minutes of the Directors' meeting held on the 30th of November 1988, which extract has only recently come into our possession.

Quote

```
Present:    A G Berry (Chairman)
            D E Atkins
            M Fazakerley
            M F Fromstein
            A M Davies
            D Stevenson
            W B Tebbitt
In attendance: B M L Gray, Secretary and J K Sharkey.

M 815 AMERICA'S CUP

AGB reviewed the current situation, pointing out
that the prognosis was for the next Challenge to take
place in Spring 1992.  Current estimates suggested
that the cost to the Blue Arrow Challenge over the
next three years would be in the order of £15
million.  Clearly, a prime aim must be to defray such
costs as far as possible and a particular joint-
venture project had been put forward before us by
Mr de Savary.
Peter de Savary is currently involved in a major
project on Canvey Island where he now owns
approximately 1300 acres of industrial use land.  It
is suggested that Blue Arrow will take a 50% share
in a joint venture to develop this land for
commercial and residential purposes.  This would
require the insertion of £25 million in loan
capital.  Blue Arrow would have a charge over the
land immediately behind the banks and would be
repaid its investment first before Peter de Savary.
It is considered that this will be a self-financing
project and it is evident that its success all
revolves around obtaining the appropriate planning
permissions.
General discussions took place and the non-
executive directors expressed some anxiety about
Department of Environment "calling-in" the planning
permission which would lead to long delays.  It was
therefore important that ability to exit the project
was available.  It was pointed out that the value
of the land with its existing industrial use covered
the initial investment by Blue Arrow.  It was
resolved to proceed with caution.
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Unquote

The minutes demonstrate that the value of the land, without the benefit of planning permission, adequately secured your investment. It is significant to note that, contrary to what the Circular states, the above Minutes make no reference to any personal guarantee, or that the Loan would *either* bear interest or be repaid within eighteen months. Indeed, these matters were never the subject of discussion between Chainrock and your Board. It can only be assumed that the above Minutes are, as they would purport to be, an accurate record of the proceedings of your Board. Moreover, the above Minutes were approved and signed at a meeting of your Directors held on Wednesday 22nd February 1989. That meeting was attended by the full Board with the exception only of Mr Stevenson.

There is now set out below the text of a letter received by me from your former Chairman and Chief Executive dated 2nd December 1988.

Quote

```
Peter de Savary,                              2nd December 1988
Chainrock NV.          (SUBJECT TO CONTRACT)

Dear Peter,
Canvey Island
I refer to the discussions which we have had regarding Blue
Arrow's proposed investment in the Canvey Island project.  I
am writing to confirm that Blue Arrow does wish to invest the
sum of £25m in the project and that such investment would be
made by way of a loan secured by a second charge on the property.
Blue Arrow would expect to receive a half-share in the profits
which would derive from the development of the property after
all bank debt, development costs and the £25m Blue Arrow loan
have been re-paid and after Chainrock or Aldersgate have
received the first £25m of profit.
Although I understand that our respective solicitors have made
considerable progress on the detailed documentation, it
appears that we are not in a position, today, to sign legally
binding documents.  I would therefore be grateful if you would
accept this letter as Blue Arrow's agreement in principle to
the transaction on the basis of the terms set out in the
attached summary.  This agreement in principle must remain
subject to contract until full and final documents in a form
mutually acceptable to the parties have been negotiated and
agreed.  I confirm that I have obtained my Board's approval
in principle.  You have my assurance that Blue Arrow will
negotiate such documents in good faith and on reasonable terms
to reflect the principles of the deal and I have instructed
Allen & Overy accordingly.
I would be grateful if you would confirm this arrangement is
acceptable to you.

Yours sincerely,
BLUE ARROW PLC
A G BERRY
Chairman
```

Unquote

The summary attached to the above letter of the terms of the agreement stated, *inter alia,* as follows:

"Blue Arrow will lend Chainrock the sum of £25m for a period of two and a half years from the 1st of January 1989, interest free and secured by a second charge on the property"

Throughout the negotiations it was envisaged by both parties that their respective investments would take the form of a joint venture; indeed reference is made to the fact in the above Board Minutes. It was for this reason that Blue Arrow's investment, like that of Chainrock's, was to be interest-free as both parties will be sharing in the development profits. However, the agreement was for technical reasons structured, as an interim arrangement, in the form of a loan facility but with Blue Arrow being entitled to a full participation in the development profits. You will also see from the terms of the Facility Agreement that, as it had insisted, Blue Arrow has the right at any time on notice to require Chainrock to enter into negotiations to convert the arrangement to a fully-fledged joint venture.

Following detailed negotiations on the contractual documentation between Chainrock's and Blue Arrow's respective legal advisers, completion of the Agreement took place at the offices of Allen & Overy on the 7th December. Present at the meeting, amongst others, were the Chairman and Chief Executive of Blue Arrow and its delegated executive, Robert Holt. The Agreement was signed on behalf of Blue Arrow by Robert Holt and his signature was witnessed by one of the partners of Allen & Overy.

At the completion meeting, Allen & Overy confirmed to our solicitors that a copy of the Board Minute confirming full Board approval for the execution of the Facility Agreement would be provided. We therefore had then and have now, no reason to doubt but that the Agreement was being executed with the full knowledge and approval of your Board.

Between the 7th December 1988 (when the Facility Agreement was signed) and 21st December 1988 (when the funds were drawn down) I had numerous telephone conversations with your Finance Director, Mr Fazakerley, concerning the mechanics of the drawdown of the funds.

The Reason for Confidentiality

There has been much speculation in the media concerning the confidentiality clause in the Facility Agreement. As a result of that speculation, it is only right that you should know the reason for the clause.

The planning application that has been submitted in relation to Canvey Island is very substantial. Complicated development proposals are usually more successfully realised in a quiet low-key manner. It was for this reason alone that a mutually binding obligation of confidentiality was incorporated in the Facility Agreement. Such provisions are perfectly proper and commonplace in commercial transactions and indeed were very much in the interest of both parties. Blue Arrow and its solicitors, Allen & Overy, were fully aware and appreciative of this condition at the time they executed the Facility Agreement.

It followed from the same reasoning that Chainrock endeavoured by Court proceedings to ensure that confidentiality was preserved since it considered the development value of the land might otherwise be jeopardised. The application to the High Court for an Injunction on Saturday 1st April followed a letter I had received on Friday, 31st of March when I was first notified of your Board's intention to make full disclosure in breach of its confidentiality obligations unless Blue Arrow was released from the venture. The text of the letter is set out below.

Quote

```
TO:     Peter de Savary
        Pall Mall / Littlecote Manor

FROM:   Bruce Gray
        31st March 1988

Petar,
We have been advised by James Capel and Larards that
we must declare existence of the loan to Chainrock
at the AGM on Monday.  Obvious'y we shall have to
do this.  Any such disclosure will not identify the
third party.  A separate valuation of the existing
use value of the land carried out discreetly by
another firm has shown a considerable discrepancy
suggesting that our loan may be unsecured.  The
obtaining of the separate valuation was required by
James Capel and Lazards.
Final agreement to release us from the venture
before next Monday would hopefully remove the need
for such disclosure.  Please respond urgently.
Regards

Bruce Gray
Bruce Gray - Home Number 0737 351217
John Sharkey - Home number 01 485 4243
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Unquote

The threat to breach the confidentiality obligations could not have been made at a more sensitive time, the planning application having only been lodged at the end of February. Your Board was also on notice that at that time, Chainrock was engaged in the most delicate negotiations with a major pension fund joint venture, which negotiations would have led to the immediate repayment of the loan and Blue Arrow's replacement in the joint venture by an institutional partner who would ensure the fulfillment of our long-term development objectives. Your Board has been provided with documentary evidence of this.

The confidentiality clause was, as already mentioned, entered into in the full knowledge of your Company's advisers. It is to be inferred from this that the advisers to your Board confirmed that the Loan was not a notifiable transaction under the Rules of the Stock Exchange.

We are also aware that the Audit Committee of your directors (comprising Mr Davies and Mr Tebbitt with Mr Gray, Mr Fazakerley and Mr Sharkey in attendance) met on Monday the 27th February 1989 and was advised that the present brokers to Blue Arrow, namely James Capel & Co. did not disagree with the earlier advice that the loan was not a notifiable transaction. The Minutes of that meeting show that your Board had been advised by Jones, Lang & Wootton that publicity in connection with the development would prejudice the application for planning permission. The conclusions of the Audit Committee were that they were satisfied proper security existed for the Loan and that disclosure need not be made.

Valuations

The statement made by your Board at the Annual General Meeting held on the 3rd of April was based upon a brief report which, unknown to us, was commissioned by your Board from Drivers Jonas in March. As the Circular points out, that report did not purport to be a valuation; it describes itself as an "overview" and indeed could be no more than that as Drivers Jonas made no local enquiries of the planners and did not discuss the project with us, the developers. It is to be regretted that Drivers Jonas' report is not appendixed to the Circular.

However, on the basis of that brief report, your Board chose to make an announcement at the Annual General Meeting calling into question the recoverability of the loan.

Your Board chose to cast aside the more detailed valuation it had commissioned as recently as the 27th February 1989 from Jones, Lang & Wootton, who had been investigating the project since June 1988. You have seen that the valuation placed by Jones, Lang & Wootton on the development land, without planning permission, was between £75m and £85m. You ought to be aware that, contrary to statements in the Circular, Jones, Lang & Wootton have at no time acted as advisers to either Chainrock or myself on the project. Their report was prepared at the request of and on behalf of Blue Arrow. The Jones, Lang & Wootton valuation is supported by the evidence we have produced to your Board in respect of the negotiations we have been currently conducting. Jones, Lang & Wooton's report apart, the independent evidence we have provided to your Board shows clearly an existing value of £80m on the land without planning permission. That in our view represents the best evidence of current market value.

Your Board now bases its present decision to make full provision for the loan upon a report it has recently commissioned from Debenham Tewson & Chinnocks, who were only instructed towards the end of April and who can have only a very limited knowledge of the development land. Again, it is to be regretted that your Directors have not chosen to exhibit in the Circular the full report of Debenham Tewson & Chinnocks.

Conclusions

For the above reasons, we fail to comprehend how your Board can, and, why they should wish to, now call into question the recoverability of the loan and the value of the underlying security and advise you that full provision should be made. Companies in my group have been consistently successful in major property transactions and it was our firm opinion that your Loan was more than adequately secured with the opportunity of earning a substantial profit. This is well documented by the independent evidence we have made available to your Board and which would refute the opinion expressed by Debenham Tewson and Chinnocks.

As your partners in the venture we shall continue to progress the development notwithstanding the disruption and burden under which your Board has now placed us.

We seek to further not only your interests and our own but also those of the community of Canvey Island.

Peter deSavary

P J de Savary 19th May 1989

For and on behalf of Chainrock Corporation NV

Building hotels in the Baltics

BALFOUR BEATTY, a BICC Company, is leading the UK involvement in the New Olympia Hotel development which is to take place in the city of Tallinn in Estonia, one of the Baltic republics.

A protocol of intent has been signed in London by representatives of Balfour Beatty, the FINEST Hotel Group, the Tallinn Association of Hotels, the Moscow Narodny Bank and the Vneshekonoombank.

The FINEST Hotel Group is a Finnish and Estonian joint venture which is currently refurbishing an hotel in Tallinn. Balfour Beatty is organising a recapitalisation proposal which will enable the joint venture to undertake the second stage of the Tallinn Development, comprising a £30m 300-bedroom hotel, office and conference complex, due to open in the summer of 1992.

CONSTRUCTION CONTRACTS

Unprecedented demands on British roadbuilding

By Andrew Taylor, Construction Correspondent

Share prices of some of Britain's biggest civil engineering companies and building material suppliers rose steeply at the end of last week as investors began to realise how much extra work the companies could win as a result of an unprecedented increase in road building.

Spending on motorway and trunk roads is to be more than doubled to £12bn. The money, subject to annual public expenditure decisions, is expected to be spent over the next ten years.

Tarmac's share price on Friday rose 21p to 356p. Blue Circle by 22p to 604p, Redland 23p to 630p, RMC 31p to 810p, Costain 23p to 369p, Mowlem 17p to 471p and Taylor Woodrow 19p to 670p.

But can the construction industry, which showed signs of overheating last summer, cope with such a rapid expansion?

Producers of aggregates, the sand, gravel and rock which is used to make concrete, in black top and for foundations, have already warned of shortages unless local authorities grant more planning permissions for new quarries.

Mr Robert Napier, managing director of Redland one of the country's biggest aggregate producers, welcomed the Government's announcement but said: "There are problems with sand and gravel reserves, particularly in south east England.

"Companies will be able to cope with increased demand from the road programme but only by increasing production. This would further shorten the life of existing quarries. Prices are bound to rise unless reserves are allowed to increase, particularly if companies are forced to ship aggregates from other regions to the south east."

The Department of Transport last summer imposed a moratorium on road repair contracts for motorways and trunk roads because construction prices rose higher than expected.

Mr John Armitt, chairman of Laing Civil Engineering, said: "It is going to take two or three years to design and prepare these schemes so there will be time for civil engineers to build up their teams ready for an increase in workloads.

"Prices increased last year as a result of rises in labour and material costs. It is too early to say where prices will be in three years time or what state the rest of the construction industry will be in. Clearly companies would like to increase margins which remain very low in civil engineering."

The most immediate beneficiaries of last week's announcement will be consulting engineers which the Transport Department said: "will be appointed as soon as possible to work, prepare and design individual schemes."

The emphasis of the prgramme will be on widening and improving existing motorways and trunk roads rather than building new ones.

Adapting bridges and embankments to accomodate extra motorway lanes will provide particular problems. One suggestion has been to convert hard-shoulders under bridges into temporary lanes.

What is clear is that the construction industry is in line for a lot more work over the next decade with the Government committed to providing the resources to improve Britain's roads.

Hampshire town centre project

NORWEST HOLST is to build a £15m town centre scheme in Havant, Hampshire. Known as the Meridian Centre, the scheme will provide shops, office accommodation and car parking on two sites in the middle of the Hampshire town.

Shopping and office accommodation will be housed in a four-storey in situ concrete framed structure which will be clad in brickwork. A three-storey high glazed atrium and shopping mall will form the focal point of the scheme with retail outlets housed on the ground and first floor levels.

Work on site began earlier this month and is scheduled to last 93 weeks. Client for the scheme is Waterglade Retail (Havant).

Access to Essex shopping centre

LAING CIVIL ENGINEERING has been awarded a £16m contract by Capital & Counties to build the link road to the new Thurrock Lakeside Shopping Centre development in south Essex which is due to open in Autumn 1990.

The road forms a link between the A13 and the main spine road passing through the development area in Thurrock, the A126. This area has already seen the establishment of a major retail warehousing scheme and other distribution related warehousing developments.

The contract includes construction of 1300 metres of dual carriageway passing to the east of the shopping centre and under the A1306 to the north of the site. From the northern end of this section the road will be connected to the A13 trunk road under a separate contract.

Access to the shopping centre will be provided by a grade separated junction between the two major roads. The section of road from the A13 to the A1306 will be in-cut, the remainder being on a filled embankment, supported by reinforced earth retaining walls through the grade separated interchange.

Other structures on the contract include in situ reinforced concrete retaining walls, bridges over the grade separated interchange comprising pre-cast concrete beams with an in situ topping, and an in situ bridge with a voided deck to carry the A1306 over the new road. A temporary diversion has already been built to divert traffic round the bridge site providing room for the construction of the bridge.

International ice rink for Brighton

Work will start this summer on a £40m development which will bring an international standard ice rink to Brighton's town centre. The Jubilee Street redevelopment project will also include over 100,000 sq ft of offices, residential and retail units.

Joint developers of the scheme are Tarmac Properties Home Counties in partnership with Brighton Borough Council. TARMAC CONSTRUCTION will start work this summer on the five acre site and construction is scheduled to take about two years.

DIARY DATES

PARLIAMENTARY

Today

Commons: Motion for spring adjournment.

National Maritime Museum Bill, Civil Aviation (Air Navigation Charges) Bill and Atomic Energy Bill, remaining stages.

Motion on Financial Provisions (Northern Ireland) Order.

Lords: Prisons (Scotland) Bill, third reading.

Water Bill, committee.

Motion for approvals on Summer Time Order and Social Security (Miscellaneous Provisions) Regulations.

Select committees: Home Affairs: subject, report of the Police Complaints Authority. Witness: Sir Cecil Clothier, chairman. (Room 15, 4.15 p.m.).

Public Accounts: subject, Ministry of Defence manpower. Witness: Sir Michael Quinlan, MoD. (Room 16, 4.30 p.m.)

Environment: subject, contaminated land. Witnesses: Environment Department officials. (Room 21, 5.15 p.m.)

Tomorrow

Commons: Opposition debate on "The necessary regeneration of the inner cities."

Motion on Community Charges and Rating and Valuation Regulations.

Opposed private business from 7 p.m.

Lords: Water Bill, committee.

Parking Bill, report.

Hearing Aid Council (Amendment) Bill, second reading.

Select committee: Members' Interests: subject, parliamentary lobbying. Witness: Mr Adam Raphael. (Room 15, 5.15 p.m.)

Committee on a private bill: Bromley London Borough Council (Crystal Palace) Bill. (Room 6, 10.30 a.m.)

Wednesday

Commons: Dock Work Bill, remaining stages.

Motion on EC document on gaseous emissions.

Lords: Debate on transport needs, particularly in London.

Debate on report of the EEC on merger control.

Select committees: Environment: subject, progress in reorganisation of the Property Services Agency. Witnesses: PSA officials. (Room 21, 10.30 a.m.)

Foreign Affairs: subject, Hong Kong. Witnesses: Mr Henry Keswick and the Hong Kong Association. (Room 15, 10.30 a.m.)

Welsh Affairs: subject, public expenditure plans for Wales and the Welsh Commentary. Witness: Mr Peter Walker, Welsh Secretary. (Room 18, 10.30 a.m.)

Agriculture: subject, implementation of the new beef regime. Witnesses: National Farmers Union, NFU Scotland, Farmers Union of Wales, Ulster Farmers Union, Association of British Abattoir Owners, Federation of Fresh Meat Wholesalers and Livestock Auctioneers Market Committee for England and Wales. (Room 20, 10.45 a.m.)

Trade and Industry: subject, financial services and the single market. Witness: Mr Francis Maude, Corporate Affairs Minister. (Room 5, 10.45 a.m.)

Defence: subject, vertical launch Seawolf missile and Type 23 frigate command system. Witness: Ministry of Defence. (Room 16, 10.50 a.m.)

Energy: subject, energy relations with the Soviet Union. Witness: Mr Cecil Parkinson, Energy Secretary. (Room 8, 11 a.m.)

Treasury and Civil Service: subject, developments in the Next Steps programme. Witness: chief executive of HMSO. (Room 19, 11 a.m.)

Foreign Affairs: subject, Hong Kong. Witness: Mr Timothy Renton, Home Office Minister of State. (Room 8, 4.15 p.m.)

Treasury and Civil Service: subject, the Delors Report. Witness: Mr Robin Leigh-Pemberton, Bank of England governor. (Room 15, 4 p.m.)

Social Services: subject, resourcing the NHS, the White Paper Working for Patients. Witness: Mr Kenneth Clarke, Health Secretary. (Grand committee room, Westminster Hall, 4.15 p.m.)

Transport: subject, roads for the *future*. Witness: Association of Metropolitan Authorities. (Room 17, 4.15 p.m.)

Procedure: subject, scrutiny of European legislation. Witness: Mr Nigel Spearing, MP. (Room 18, 5.30 p.m.

Committees on private bills: (opposed) Bromley London Borough Council (Crystal Palace) Bill. (Room 6, 10.30 a.m.)

(Unopposed) Buckinghamshire County Council, Kingston-upon-Hull City Council and Tees (Newport) Bridge Bills. (Room 9, 4 p.m.)

Thursday

Commons: Fair Employment (Northern Ireland) Bill, remaining stages.

Lords: Disabled Persons (Northern Ireland) Bill, third reading.

Social Security Bill, second reading.

Control of Pollution Bill, second reading.

Committee on a private bill: Bromley London Borough Council (Crystal Palace) Bill. (Room 6, 10.30 a.m.)

Friday

Commons: Adjournment motions.

FINANCIAL

TODAY

COMPANY MEETINGS-

Allied Partnership, Rubens Hotel, Buckingham Palace Road, S.W., 11.30
Avis Europe, Inn-on-the-Park, Hotel, Park Lane, W., 12.00
Kentish Property, The Brewery, Chiswell Street, E.C., 12.30
Meggitt, Merchant Taylors Hall, 30, Threadneedle Street, E.C., 12.00
More O'Ferrall, Chesterfield Hotel, 35, Charles Street, W., 10.00
Quotient, 5-7, Cranwood Street, E.C., 12.00
Savoy Hotel, Savoy Hotel, W.C., 12.00
Severfield-Reeve, Butchers Hall, Bartholomew Close, E.C., 12.00
Sherwood Computer Services, Butchers Hall, Bartholomew Close, E.C., 12.00
T & S Stores, Post House Hotel, Chapel Lane, Great Barr, Birmingham, 12.00

BOARD MEETINGS

Finals:
Associated British Foods
British-Borneo Petrol
De Morgan
London & O'seas Freighters
Murray Technology
Petrocon
Plessey
Premier
Stratton Inv. Tst.
Interims:
Compass
Consolidated Co. Bultfontein
Countryside Props.
F&C Eurotrust
Greenall Whitley
Griqualand West Diamond Mining
PWS
Parkcom
Shaftesbury
Union Steel Corp
Western Selection
Wheway

DIVIDEND AND INTEREST PAYMENTS-

Allied Irish Banks Undated FRN's $477.12
Citicorp O'seas Finance FRN's 1991 £160.27
Commerzbank O'seas Finance FRN's 1995 $605.56
Cons. Freightways 26.5cts
Conversion 10¼pc 1999 5⅛pc
Dauphin 2.7p
Druck 2.5p
European Investment Bank 10⅝pc Ln 2004 5⅜pc
Exchequer 2½pc 1990 1¼pc
Halls Homes & Gardens 4p
IMI 5p
Isle of Man Steam Packet 12p
Lancaster 2.7p
Laporte Inds. 6.7p
Manders 4.55p
Minerals Oils & Res. 16cts
National Westminster Undated Var Rate $255
New Zealand FRN's 1997 £192.83
Pochin's 4p
Savage 1.5p
Sea Containers 15cts
Security Pacific FRN's 1997 $248.96
Standard Chartered Sub FRN's 1996 £160.3
Sykes-Pickavant 3.5p
TSB Offshore Inv Fd Pf (Blue Chip & Gilt Class) 1.65p
Do. Pf (Man Currency Class) 4.5p
TSW 1.16p
Tokyo Electric Power FRN's 1992 Y256795
Treasury 2½pc I-L 1990 £1.6554
Woolwich Equitable B. S. FRN's 1995 £323.63

TOMORROW

COMPANY MEETINGS-

Bridon, Savoy Hotel, W.C., 12.00
Cannon Street Invs., Royal Westminster Hotel, Buckingham Palace Road, S.W., 12.00
Child Health Research Inv. Tst., 33, Cavendish Square, W., 5.30
Connells Estate Agents, Brown's Hotel, Dover Street, W., 10.30
Corporate Estate Props., Savoy Hotel, W.C., 12.00
Fisons, Merchant Taylors Hall, Threadneedle Street, E.C., 11.00
Hogg Robinson & Gardner Mountain, Baltic Exchange Chambers, 14/20, St. Mary Axe, E.C., 12.15
Jacksons Bourne End, Barber-Surgeons' Hall, Monkwell Square, Wood Street, E.C. 12.00
Nestor-BNA, 41, Tower Hill, E.C., 12.00
Ocean Transport & Trading, Merseyside Maritime Museum, Albert Dock, Liverpool, 2.30
Page (Michael), 39-41, Parker Street, W.C., 12.00
Rolls-Royce, Albert Hall, S.W. 11.00
Scott & Robertson, Excelsior Hotel, Glasgow Airport, Glasgow, 12.00

BOARD MEETINGS

Finals:
Apricot Computers
British Airways
Coloroll
Downiebrae
Fairbriar
Gates (Frank)
Just Rubber
Trimoco
Vibroplant
Interims:
Alexanders
Bett Brothers
City Site Estates
Fairline Boats
Leeds Group
Moran
Northern American Tst.
Northern Indl. Improv. Tst.
Radio City (Sound of Merseyside)
Rank Hovis McDougall

DIVIDEND AND INTEREST PAYMENTS-

ASEA AB Ser A SK9
Do. Ser B SK9
Alfa-Laval SK16.5
Brooks Service 3.4p
Export-Import Bank of Korea FRN's 1994 $471.35
Halifax B S FRN's 1996 £161.54
M.Y. 1.5p
Morgan (J.P.) Int. Finance FRN's 1997 $247.22
Portland NZ30.0225
Premier FRN's 1999 $489.27
Royal Dutch Petroleum (Br) Fl4.1
Do. (Reg) Fl4.1
Smaller Co's Inv Tst 1.25p
Sunderland (Borough of) 11¼pc 2008 5⅝pc
Treasury 13¼pc Ln, 1993 6⅞pc
Trinidad & Tobago (Republic of) 12¼pc Ln 2009 6⅛pc
Tyndall 3p

WEDNESDAY MAY 24

COMPANY MEETINGS-

Associated British Ports, Ironmongers' Hall, Shaftesbury Place, Barbican, E.C., 12.00
BHH, Newstead House, Alderflat Drive, Newstead Ind. Estate, Trentham, Stoke-on-Trent, 11.00
Bemrose, Stationers Hall, Ave Maria Lane, E.C., 11.45
Billingsgate City Securities, 1, Prescot Street, E., 3.00
Cluff Resources, 89, Pall Mall, S.W., 12.00
Costain, Plaisterers Hall, 1, London Wall, E.C., 12.00
Elys (Wimbledon), Worple Road, Wimbledon, S.W., 6.00
Gordon Russell, 44-46, Eagle Street, W.C., 9.00
Guardian Royal Exchange, Institute of Chartered Accountants, Moorgate Place, E.C., 12.00
Johnson Cleaners, Howard Hotel, Temple Place, W.C., 11.30
London Finance & Inv., Honourable Artillery Company, Armoury House, City Road, E.C., 12.00
Metalrax, Plough & Harrow Hotel, Hagley Road, Edgbaston, Birmingham, 11.45
Molynx, 10, Lower Thames Street, E.C., 12.00
Oakwood, Howard Hotel, Temple Place, W.C., 12.00
P-E Intl., Savoy Hotel, W.C., 12.00
Reckitt & Colman, New Connaught Rooms, 15, Great Queen Street, W.C., 11.00
Wace, 235, Strand, W.C., 11.30

BOARD MEETINGS

Finals:
Chamberlin & Hill
Chillington
City of London PR
Courtaulds
Harwell
Honda Motor
Land Securities
Thames TV
Interims:
Cauldon

DIVIDEND AND INTEREST PAYMENTS-

Commonwealth Bank of Australia 12⅝pc Nts 1993 6⅜pc
Davies & Metcalfe 2.7466p
Do. "A" Non Vtg 2.7466p
Esselte Aktiebolag "A" SK5.25
Do. "B" SK5.25
Investors in Industry Intl FRN's 1994 £32.21
Murray Intl. Tst. 5.25p
Royal Bank of Canada 65cts
Sandvik Aktiebolag "B" SK6
State Bank of New South Wales 12½pc Nts 1991 6¼pc
Sun Life Assurance 28.11p
Tibbett & Britten 4.1p
WSP 1.3p
Wilson Bowden 4.72p
Young (H) 2p

THURSDAY MAY 25

COMPANY MEETINGS-

Aspen Comms., 3, Cloth Street, E.C., 12.00
B.A.T. Inds., Queen Elizabeth II Conference Centre, Victoria Street, S.W., 12.00
Baird (Wm), Caledonian Hotel, Princess Street, Edinburgh, 12.00
Barlows, Grosvenor Hotel, Chester, 12.00
Boosey & Hawkes, Hilton Intl., Regents Park, Lodge Road, N.W., 2.30
Clayton Son, Queens Hotel, Leeds, 2.00
Dagenham Motors, Savoy Hotel, W.C. 12.00
Enterprise Oil, Glaziers Hall, 9, Montague, Close, London Bridge, S.E., 12.00
Eurotunnel, Westminster Central Hall, S.W., 10.30
F.&C. Pacific Inv. Tst., 1, Laurence Pountney Hill, E.C., 12.00
Fitch-RS, 29, Bedford Square, W.C., 12.00
Great Southern, Plaisterers Hall, 1, London Wall, E.C., 5.30
Jacks (Wm), Hurlingham Club, Ranelagh Gardens, S.W., 11.30
London & Metropolitan, Stationers Hall, Ave Maria Lane, E.C., 12.00
MS Cash & Carry, Whittle Stand, Haydock Park Racecourse, Newton-le-Willows, Merseyside, 12.30
Magnolia (Mouldings), Magnolia House, Rutherford Drive, Park Farm South, Wellingborough, Northants., 11.30
Morrison (Wm) Supermarkets, Bankfield Hotel, *Bradford Road, Bingley, West* Yorkshire, 11.00
Nell (James), Handsworth Road, Sheffield, 12.00
Newarthill, Bonnington Hotel, 92, Southampton Row, W.C., 12.30
Next, The Berkeley, Wilton Place, S.W., 12.30
Polly Peck, New Connaught Rooms, Great Queen Street, W.C., 11.00
RMC, Inn on the Park, Hamilton Place, Park Lane, W., 11.30
Rea Brothers, Great *Eastern Hotel*, Liverpool Street, E.C., 12.00
Rotork, Rotork House, Bitterwell Lane, Bath, 12.00
Sphere Inv. Tst., Drapers Gardens, 12, Throg*morton Avenue, E.C., 12.00*
Suter, Howard Hotel, Temple Place, W.C., 12.00
Tootal, Waldorf Hotel, W.C., 11.00
Turriff, Armoury House, City Road, E.C., 11.30
Weir, Merchants' Hall, 30, George Square, Glasgow, 12.00
Willis Faber, Ten Trinity Square, E.C., 12.00

BOARD MEETINGS

Finals:
Airflow Streamlines
Castings
Headicut Intl.
Southnews
TR Property
Thornton Oriental Income
Toshiba
Westbury
Young & Co's Brewery
Interims:
Archer (A.J)
Dobson Park
Scottish Inv. Tst.
Smart (J)
Thornton (GW)
Warner Estate
Wolverhampton & Dudley Breweries

DIVIDEND AND INTEREST PAYMENTS-

Adwest 1.25p
Alexandra Workwear 2.65p
Aluminium Co of America 40cts
BNH 2.75p
BTR 6.7p
Bailey (Ben) Construction 1p
BP 8.5p
Do. (225p Pd) 8.5p
Clayton, Son & Co. 8.3p
Connells Estate Agents 6p
Dead Sea Works 50p
Eaton 30cts
Emess 5.6p
General Union Mining 120cts
Do. 8.5pc Pf 114.75cts
Do. 12.5pc Deb (Irrd) 168.75cts
Holborn Currency Fd (Sterling Shs) 5.04p
Do. ($ Shs) 48.08cts
Do. Deposit (Sterling) 6.22p
Do. Deposit (DM Shs) DM1.005
Do. Deposit (Yen Shs) Y74.15
Hornby 5.25p
Jacobs (John I) 2.8p
MTM 2.4p
Marley 4.25p
RKF 2.25p
Rea Brothers 0.28p
Rockfort 2.8p
Royal Sovereign 4.3p
Secure Tst 0.99p
Singer & Friedlander 1.25p
Steel Burrill Jones 7.3p
TSB Gilt Fd Class "B" 1p
Woodchester Invs. Ir1.12p

FRIDAY MAY 26

COMPANY MEETINGS-

Abbey Life, The Brewery, Chiswell Street, E.C., 11.30
Ash & Lacey, Botanical Gardens, Westbourne Road, Birmingham, 12.00
Biliam (J), Baldwins Omega, Sheffield, 12.00
Breedon, Breedon-on-the-Hill, Leicester, 12.00
City & Commercial Inv. Tst., 0, Devonshire Square, E.C., 12.00
Dawsongroup, Kings Head, Ivinghoe, near Tring, 12.00
Eadie, 155, St. Vincent Street, Glasgow, 12.00
Feedex Agric. Inds., Dalesy Hill, Burstwick, Hull, 12.00
Guiness, Hilton Hotel, Park Lane, W.C., 12.00
Inchcape, Le Meridien Hotel, 21, Piccadilly, 12.00
Johnston Group, Hyde Park Hotel, Knightsbridge, S.W., 12.00
NMW Computers, Crown Hotel, High Street, Nantwich, 12.00
Relyon, Wellington, Somerset, 12.00
Sharp & Law, Victoria Hotel, Bradford, 12.30
Tesco, Merchant Taylors' Hall, 30, Threadneedle Street, E.C., 2.30
Tudor, Lyttleton Arms Hotel, Hagley, West Midlands, 12.00
Ward Group, Royal York Hotel, York, 12.00
Watts, Blake, Bearne, Manor House Hotel, Moretonhampstead, 12.00

BOARD MEETINGS

Finals:
Eastern Produce
Hawtal Whiting
High Gosforth Park
Isopad Intl.
Jarvis Porter
NEC
Waverley Asset Management
Interims:
Acatos & Hutcheson
Crown Comms.
Ferry Pickering
GPG
Kelsey Inds.
Kleen-E-Ze

DIVIDEND AND INTEREST PAYMENTS-

Ash & Lacy 21p
Associated *British Ports* 6.5p
Associated Fisheries 5p
Barratt Devs. 3.21p
Bemrose 7p
Bowater Inds. 8.25p
Breedon 2.5p
Britannia 3.1p
Drayton Consolidated Tst. 3.75p
Edmond 1.2p
Elys (Wimbledon) 12.5p
English & Dutch Inv. Tst. 8pc Pf Fl8
Do. 8pc 2nd Pf Fl8
Do. Part Certs Fl6
Ericsson (L.M.) SK10.5
F & C Pacific Inv. Tst. 0.8p
Fitch-RS 6.6p
Gabicci 1.4p
Gordon Russell 5p
Greggs 7p
Highlands & Lowlands Berhad 15sen
Jacksons Bourne End 1.8p
Kingston Oil & Gas 0.4125p
Lilley (F.J.C.) 1p
Lloyds Eurofinance FRN's 1996 £165.17
London & Strathclyde Tst 1.25p
Lyon & Lyon 3.96p
Mackay (Hugh) 5p
Magnolia (Mouldings) 3.45p
Molins 7.1p
Morrison (Wm) Supermarkets 1.75p
Murray Ventures 2.5p
RMC 9.9p
Scottish Heritable 3.5p
Severfield-Reeve 2p
Sintrom 1.74p
T & S Stores 1.625p
Tottenham Hotspur 1p
VG Instruments 3.8p
Wace 2.75p

SATURDAY MAY 27

DIVIDEND AND INTEREST PAYMENTS-

Abbey Life 24.9p

Trade Fairs and Exhibitions: UK

May 23-25
National Incentive & Promotion Exhibition (0273 206722)
Olympia

May 23-26
Chelsea Flower Show (01-834 4333)
Royal Hospital, Chelsea

May 24-25
Computers in Manufacturing Exhibition (0372 372842)
Harrogate

May 26-28
Select Investment Show (06333 76626)
Brighton

June 6-8
Enterprise and the North West - Opportunities for Action Conference and Exhibition, (01-642 7688)
G-MEX Centre, Manchester

June 6-9
Screen Print and Screen Print Wear '89 (01-340 3291)
NEC, Birmingham

June 8-13
Fine Art and Antiques Fair (01-385 1200)
Olympia

June 11-14
Business to Business Exhibition (01-723 0677)
Business Design Centre, London

June 12-15
INTEREKNIT/INTERWEAVE Exhibition (0533 544017)
NEC, Birmingham

Overseas Exhibitions

May 23-26
Asian International Chemical and Process Engineering Exhibition and Conference - CHEMASIA (01-486 1951)
Singapore

May 27-June 4
International State Fair (01-734 4791)
Nicosia

June 9-15
International Air Show (01-225 5566)
Paris

June 19-23
International Wine, Spirits & Equipment Exhibition - VINITECH-VINEXPO (01-225 5566)
Bordeaux

June 20-25
International Building and Construction Exhibition (045382 8989)
Beijing

June 25-28
International Fancy Food and Confection Show (01-940 3777)
Atlanta

June 27-29
International Express & Courier Services Exhibition and Conference (0420 87303)
Brussels

Business and management conferences

May 22
International Business Communications: Offshore funds a time of change (01-236 4080)
City Conference Centre, London

May 23-24
Scottish Electronics Technology Group: European financial self-service conference and exhibition (0292 313203)
Sheraton Hotel, Edinburgh

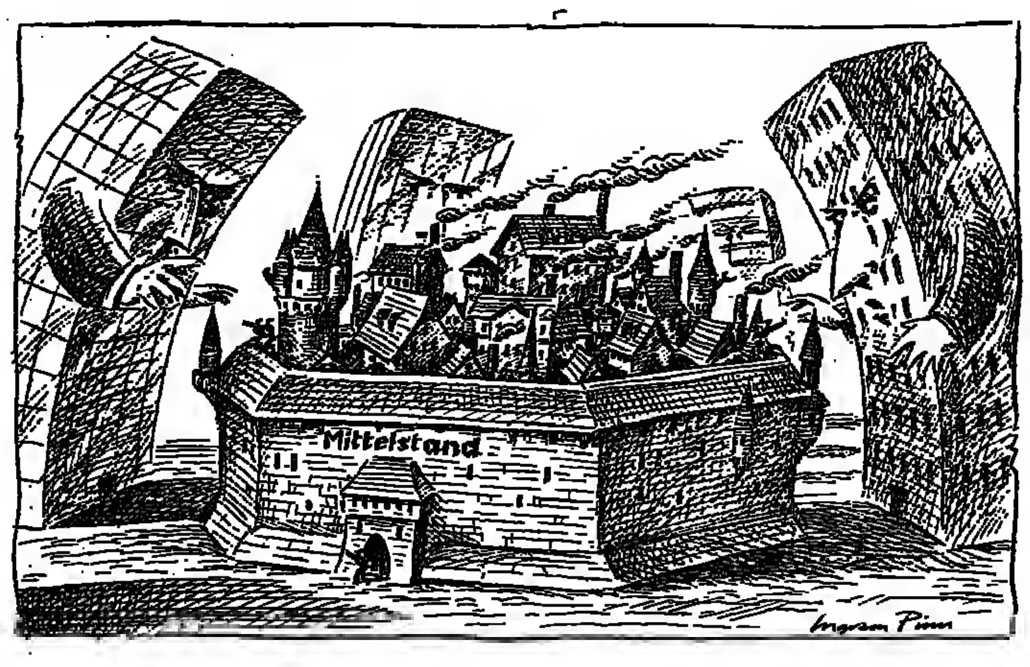
May 25-26
The Economist: The single European market: How European business is preparing and the implications for Japan (01-839 7000)
Tokyo

May 29-30
Johannesson & Associates: Global initiatives in high definition television (Luxembourg (+352) 458473)
Palais des Congrès de Paris, France

Impending change

Shivers run through the Mittelstand

David Goodhart looks at the conundrums facing the 'powerhouse' of the West German corporate sector



According to Roland Berger, founder of one of West Germany's best known management consultancies, the Soviet economy will never recover from its current travails through trying to tinker with giant enterprises. What it needs, he says, is a thick layer of efficient middle-sized companies able to respond rapidly to market opportunities.

In Germany this group forms the celebrated "Mittelstand" of companies — employing 50 to 5,000 people — which are sometimes described as the powerhouse of the manufacturing sector and certainly created 75 per cent of all new jobs over the past 10 years.

The mainly family-owned Mittelstand remains fundamentally sound but there is a shiver of anxiety running through the sector, or at least running through those who claim to protect its interests. That anxiety has several sources including demography, fear of absorption by bigger companies (domestic and foreign) and 1992.

It may also have something to do with the arrival of Mittelstand consultancy; several firms have sprung up in the past few years with a professional interest in finding fault with the Mittelstand. The largest, DGM, has been formed as part of the merger between Roland Berger's business and the Deutsche Bank consulting department.

One of its leading consultants is Peter von Windau who has been closely in touch with Mittelstand issues for more than a decade. He, like many others, fears that the Mittelstand could be seriously depleted by a rush to sell out to bigger companies brought on by a tax change and the impending retirement of a generation. Many of the founders of Mittelstand companies are too old to continue and have no suitable heir.

However, the government decision to abolish the tax break which significantly reduced capital gains tax on the sale of a company certainly added to the rush to sell as owners tried to cash in before the January 1990 deadline.

As it happens, the Government decided last month that the company sale tax reform should itself be reformed. It has not, like Withholding Tax, been abolished completely; rather the threshold above which the new rate of 53 per cent (previously 28 per cent) will be paid has been increased from DM 5m to DM 30m (£9.4m).

The Mittelstand lobby argued successfully that as the tax was being introduced to stop giant empires, like that of the Flick family, being sold off without paying a fair slab of tax, it was not necessary to hit the relatively small bosses and by so doing remove a significant incentive to new entrepreneurs.

However, critics of the original plan say that (like Withholding Tax) much of the damage has already been done and that more valuable Mittelstand companies may still be changing hands prematurely because of the tax change. The number of takeovers in Germany, mainly of companies in the Mittelstand category, rose sharply last year to 3,093, according to a report by the Hamburg consultant Jürgen Wupper. In some sectors — transport, electronics, production machinery — activity was more than 50 per cent up on the previous year.

The proposed tax change should not take all the responsibility for this increase. Demand for good German companies is much higher than supply and foreign companies especially are prepared to pay handsomely. According to the Wupper report, the British led the way last year with 61 acquisitions followed by the Swiss with 58, the Americans with 41, the French with 39 and the Dutch shooting up from seven in 1987 to 33.

Also, as von Windau points out, the supposed "bleeding" of the Mittelstand should be kept in perspective; he says that more of these companies are being created every year than disappear through merger or bankruptcy. (The latest official statistics for total company formation show that 11,271 new businesses were formed in the first quarter of 1989 — 2.5 per cent up on the same period last year.)

However, what does worry von Windau is that the Mittelstand is not realising its full potential, mainly because of inadequate relationships with larger companies. He says that in contrast to the Japanese industrial structure, where big companies subcontract to smaller ones, large German companies do too much work in-house.

According to DGM figures, a large company's total labour costs are DM 45 an hour for basic assembly work compared with DM 28 in a Mittelstand company. Taking the national basic hourly rate of DM 15, it is clear that larger companies have much greater overheads than the smaller. For instance, Von Windau says that Siemens' in-house transport costs are three times higher than they would be if they were subcontracted out and that Krupp pays twice as much for simple metal-cutting in-house as it would do outside.

DGM advocates that Mittelstand companies learn to band together to offer their services to larger ones. Judging by the results of an experiment in such co-operation sponsored by the state of Hamburg and organised by DGM, it can reduce the costs of the companies involved by about 20 per cent. (Another example of co-operation was the German mineral water industry collaborating to develop an effective response to the French.)

Such co-operation, claims DGM, can provide benefits to both large and Mittelstand companies and is an effective substitute to the conventional takeover in which the dynamism and higher productivity of Mittelstand companies can be lost.

Von Windau recalls one such deal where a multinational with sales of more than DM 1bn took over a Mittelstand company which owned some desirable technology. He says that after three months the bigger company asked for a quarterly stock report only to discover that the small company did not bother about such things. In the ensuing struggle by the larger company to impose its systems on the smaller one much of the benefit of the deal evaporated.

Other alternatives to traditional takeovers, says von Windau, include going public, which is slowly spreading to some companies in the DM 100m a year turnover bracket. Also — pursuing the logic of co-operation agreements — DGM encourages mergers between Mittelstand companies, which are generally permitted by the German Cartel Office. DGM has a complex "company culture" analysis which it claims shows whether such mergers would work.

Critics of the DGM emphasis on subcontracting/co-operation agreements with big companies, in preference to takeovers, point out that for many of the best Mittelstand companies low-value-added contract work is irrelevant as they are often highly specialised market leaders in a particular field.

Such critics also maintain that more professional and analytical management of large multinational companies can benefit the Mittelstand.

Von Windau responds that Mittelstand management is itself becoming more professional but accepts that most Mittelstand companies still tend to combine a strong corporate, or family, culture with weak strategic perspective.

Based on the 150 consultancy projects that DGM has completed over the past year, von Windau has calculated that 84 per cent of companies were lacking in strategy, 76 per cent had inefficient information systems, and 65 per cent had weak customer orientation.

Von Windau believes that partly for demographic reasons larger companies are likely to become even more parasitic on the Mittelstand. He says that with the forecast decrease in 30- to 40-year olds larger companies will be increasingly looking outside to buy-in the energetic managers and qualified workers they need.

This demographic change has already led to bigger companies taking on more women in management posts and concentrating more on management education. Von Windau says that both steps are more difficult for Mittelstand companies. "It would be much more of a cultural upbeaval for a company with 300 employees, based in a small town, to appoint a woman to the board, than it is for a large city-based multinational," he says.

Ford's internal battle to supply a global common market

The Ford Motor Company's marketing specialists used to tell their bosses that it was "impossible" to equip the company's European cars with radios carrying the Ford brand, as it does in the United States, because Europe's consumers insisted on Philips or Blaupunkt equipment. But head office has now broken this "myth" — with such positive results in the marketplace that Ford is now having to expand its radio production facilities.

Revealing this internal battle at a recent seminar in California on design management, Don Petersen, Ford's chairman and chief executive, said: "We've made a lot of errors by believing that things which work in one part of the world won't in others." Time and time again, he said, it was not the consumer who had to be convinced, but "our own marketing people. Eliminating these myths is a major area of opportunity."

Petersen's comments, made at a private meeting of the Stanford Design Forum, an international grouping of executives, designers and academics, gave a rare behind-the-scenes glimpse into the struggle which Ford's top managers are experiencing as they push the organisation to cut costs and maximise returns by "globalising" its products as far as possible — even though its own marketing experts are nervous that this may conflict with continued differences in national customer preferences.

The veil has now been lifted further by one of Petersen's immediate deputies, Philip Benton, an executive vice-president who has overall charge of Ford's automotive operations. In a long interview with two management consultants from Arthur D. Little published in Prism*, the consultancy's quarterly journal, Benton defends Ford's new globalisation drive, and discusses some of the organisational tensions it is creating.

As Benton makes clear, Ford's strategy is to develop three basic global designs of car — large, medium and small — with maximum commonality between models sold in the US, Europe and Japan, especially in terms of their components. He says, for example, that "between Europe and North America we prodnce seven different four-cylinder gasoline engines — we need two."

Benton seems somewhat equivocal about the extent to which Ford will actually have to tailor the cars' bodies and interiors to different markets and sub-markets, although this will definitely be allowed for in the basic design of each vehicle.

The planned replacement for the current Sierra line in Europe, and the very different Tempo/Topaz line in the US, will not only have a common platform but a very large number of identical components. This is a major step forward from Ford's first abortive attempt at a "world car" a decade ago: the European and US versions of the Escort, which have virtually nothing in common.

Stressing that Ford bopes to achieve substantial cost savings by removing its traditional dnplication of prodnct development programmes on both sides of the Atlantic, Benton regrets that the company did not bave the resources to develop as wide a range of variants of the US Tempo/Topaz line as it did for the Sierra in Europe.

"If those two cars had been common, we would certainly have had the choice of bringing the three-door, five-door, or some other body styles in from Europe ... we'd have found that, for a relatively small investment, because they were so common, we could have produced those cars here (in the US)."

Prodding the organisation in the right direction to create maximum commonality of components and products across the Atlantic is no easy matter, Benton admits. He constantly makes clear to Ford's managers that the company is moving towards globalisation, and this "irritates a lot of people".

More important than this evangelising, "we force global programmes. In effect we say we are not going to have two CD (medium) -size cars, and you've got to accept that, fellows — you've got to work together".

Trying to do this with Ford's two different regional organisations — one in the US, the other in Europe — is "very inefficient", Benton admits; baving a single world organisation for all cars of tbe Tempo/Sierra size "would be mnch more logical." Bnt, for various internal reasons, such a unit seems unlikely to be created. Instead, Ford is setting np a small worldwide prodnct planning organisation to co-ordinate international product cycles.

"We're going to have common products," Benton concludes. "Every time a major new programme comes up, we insist that it be global."

* *Reprints available from Prism, ADL Headquarters, Acorn Park, Cambridge, Mass 02140-2390, USA. Tel 617-864-5770.*

Christopher Lorenz

LEGAL COLUMN

London fears of a US invasion dispelled

By Robert Rice

THE PROPOSAL to lift the restrictions preventing solicitors in England and Wales from practising in multinational partnership with lawyers qualified in other jurisdictions has proved to be one of the few uncontroversial measures outlined in the Government's green paper on reform of the legal profession.

Even the Law Society accepts that partnerships with foreign lawyers present far fewer difficulties of regulation and identity than the proposal for allowing multi-disciplinary partnerships between lawyers and other professionals.

It agrees that the ban on multinational partnerships should be lifted.

As recently as December last year, it adopted a report on the subject that recommended a cautious approach to introducing multinational partnerships, limiting them at first to links between English and Welsh solicitors and lawyers of other EC member states.

The source of the society's concern was the large US law firms. "The issue is inevitably overshadowed by the economic strength and dominance of the large US law firms in particular", the report noted. "To permit partnership in England and Wales with any foreign-lawyer, including American-lawyers, may create a legitimate fear of excessive foreign dominance of some categories of legal service in the UK which could be contrary to the public interest."

There is little doubt from evidence on both sides of the Atlantic that in the light of the green paper proposals, US law firms are targeting London as

US law firms are targeting London as a base for expansion

a base for expansion to meet the growing demand for multinational legal services.

That trend will increase with the completion of the single European market in 1992. Japanese and American clients are looking increasingly to Europe and they need advice on EC law and the national laws of the 12 member states. That will inevitably lead to closer relations between US and UK law firms.

Last week, O'Melveny & Myers, the Los Angeles lawyers, became the first large US firm to announce a significant link with a leading UK practice.

Mr Perry Lerner, O'Melveny & Myers's resident London partner, said the firm had set up a committee earlier in the year to explore the possibilities for establishing a "strategic alliance" with a British firm.

After meetings with 14 London firms, it had come to an agreement with Macfarlanes to engage in joint projects, joint client representation and perhaps even to establish joint continental offices while still maintaining separate partnerships. Macfarlanes has 36 partners and a total staff of 330.

Other US law firms are bound to follow suit and many of them have set up similar committees to monitor the situation and look at the options.

Mr Andrew Vollmer, a resident London partner of the Washington DC-based Wilmer Cutler & Pickering, echoes the sentiment that London will become the premier legal centre for international work. Over 70 medium to large US law firms now have London offices and it is inevitable that most of them are giving greater thought to expansion in Europe through London.

US lawyers look at London first, anyway. Apart from the common language, it is the logical place for common law jurisdiction firms from all over the world to enter Europe. London is a top legal centre and the green paper proposals will further enhance its position.

Mr Vollmer predicts three possible avenues of expansion.

The London offices of US firms can seek to grow organically by lateral hiring of partners or groups of partners from English solicitors' firms and by hiring UK associates. English firms can acquire the London offices of US law firms. Third, US and UK firms can merge. It was possible that we would see examples of all in three coming years, he said, although he thought mergers between large US and UK firms unlikely.

That view found broad agreement among other US lawyers resident in London. According to a partner of one of the leading New York firms, the green paper has made a lot of people think about closer links between US and UK firms.

There was no doubt that a lot of UK firms would like to have the ability to deliver US law to their UK clients and vice versa, he said.

A merger between firms of the size of Sullivan and Cromwell and Clifford Chance was unlikely, however, within the next five years. The cultural obstacles, along with those of profits compensation and client conflict, would be so immense that such a merger would almost certainly shake itself apart.

From the US clients' point of view, if they needed advice on English law, it was far better to come through the London office of their US lawyers, who could then bring in the best UK experts to do the job.

There was no doubt that a number of US practices would like to have an English law capacity, he said. But whether

Clients appreciate that English lawyers are the best advisers on English law

or not it happened, if two of the majors tied the knot, others would feel bound to follow.

So are the society's fears of US law firm domination real?

The firm that is perhaps uniquely qualified to answer that question is Baker & McKenzie, whose London partners are also partners in the international firm of Baker & McKenzie – 430 partners, 1,300 lawyers practising in 39 cities across 22 countries.

Mr Malcolm Palmer, managing partner of B & M, London, says there is no doubt that they have found the ban on multinational partnerships a distinct disadvantage.

However, he rejects the suggestion of domination of the UK profession by overseas lawyers if the multinational partnership ban is lifted.

"Clients are sensible enough to appreciate that English lawyers are the best advisers on English law and its application by English judges and English bureaucrats. The practice in England of English law will therefore always be predominantly performed by English-trained lawyers."

Perhaps more important, B & M's experience tells them that if an international partnership is established, it will not survive as a unified practice unless the lawyers in each country are given sufficient local autonomy to satisfy their expectations as professionals in their local jurisdiction.

B & M firmly believes, however, that multinational partnerships are very much in the interests of commercial clients in general.

Most significant commercial transactions these days involve the parties in, or steps to be taken or contemplated in, more than one jurisdiction.

Mr Palmer fully expects to see closer links between US and UK law firms and possibly even some mergers between medium-size practices. But at the end of the day, he says, English law will continue to be dominated by English lawyers.

LEGAL APPOINTMENTS

ARTS

ARCHITECTURE

The genius of Inigo Jones

Inigo Jones (1573–1652) brought the Renaissance in architecture and the visual arts to England. And if the political and financial difficulties of the reign of King Charles I had not prevented it, London would have possessed the most magnificent palace in Europe, the Palace of Whitehall. Only the Banqueting House, with its ceiling by Rubens, was built, and a glance at Jones's plans show that it was an infinitesimal part of the whole grand conception.

If you imagine a palace façade along the Thames, as long as London's Houses of Parliament extended to the west as far as the twin towers of Westminster Abbey, you get some idea of the scale of Jones's vision — a city palace as large as Versailles, full of courts and squares. One of the courts was to have been a circle more than two hundred feet in diameter; this remarkable form was to be adorned by two tiers of caryatids — a circle of males on the ground supporting a circle of females carrying a broken entablature of the Corinthian order. There would have been nothing like it in the world.

There has never been an exhibition of the whole range of Inigo Jones's architecture. The man who brought classicism to England has always been taken for granted by the English. America knows better. *Inigo Jones: Complete Architectural Drawings* at the Drawings Centre, 35 Wooster Street, New York, is a magnificent exhibition which assembles, for the first time since the 17th century, all the surviving architectural drawings. It shows in New York until July 22 and then travels to Pittsburgh's Frick Art Museum from September 9 to November 5. The major sponsor is the Henry J. and Drue Heinz Foundation. There are, amazingly, no plans to bring the exhibition to Britain.

Inigo Jones first found fame as a painter and designer of theatrical performances. Between 1605 and 1640 he was responsible for more than 50 court entertainments, masques and plays. He often worked in collaboration with Ben Jonson, who called him "Colonel Iniquo Vitruvius." Some 450 drawings of the scenery and costume designs survive and have been well described and explained by Roy Strong and Stephen Orgel.

A small selection of these is included in the New York exhibition to provide some of the fantasy that is, inevitably, missing from the architectural drawings. But fantasy is an element that is never far beneath the surface, and it flavours some of the more munificent commissions. The exhibition was curated by John Harris who, with Gordon Higgott, has produced a catalogue that is both erudite and readable.

The works are beautifully arranged and hung in the simple, large gallery of The Drawings Centre. The centre has no equivalent in Britain. It is a non-profit organisation that, under the directorship of Martha Beck, has advanced the cause of drawing by scholarly exhibitions and a teaching programme.

Inigo Jones came to prominence as an architect when he was appointed, in 1610, Surveyor of the Works to Henry, Prince of Wales. But the Prince died suddenly two years later, and Jones travelled to Italy with the Earl of Arundel. On this journey he purchased the drawings by Andrea Palladio — a remarkable and incredibly influential purchase that was to change English architecture for ever.

The drawings in the exhibition show Jones's transformation into a rational, original, classical architect. The difference between the elevation for the New Exchange of 1608 and the drawings for the Queen's House at Greenwich is both amazing and educational.

As King's Surveyor he imposed the Roman lessons that he acquired from Palladio as much in decoration as in design. His response to ancient Rome was rare in Europe at the time; certainly neither Palladio nor Scamozzi could have produced the Roman portico for old St Paul's Cathedral that Jones produced. Jones did what I long for architects to do today: he added a level of invention to the tradition.

Inigo Jones added a resonance to the universal proportional and decorative values of Renaissance classicism. His work is personal and much of his own character comes over in his stylish drawings. The great value here is to look at original drawings (about 100 survive) and witness the development of the artist/architect.

The development of the drawings for the Banqueting House reveals Jones's tendency to simplify and rationalise a design. In the drawing of the fountain at Somerset House the sources for the figure are clearly Florentine Mannerists like Parmigianino.

This exhibition's completeness is highly important; it brings together the architectural drawings from Chatsworth, the Royal Institute of British Architects, the Morgan Library in New York and Worcester College, Oxford. They make a remarkable gathering — an elegant and educational tribute to England's great architect. How tragic that not one institution or gallery in Britain can be bothered to show this exhibition. They represent an influential part of our national patrimony and yet, to date, approaches to the RIBA and the Royal Academy have met with pathetic prevarication.

For as long as the RIBA scandalously continues to neglect its public responsibilities in respect of its Drawings Collection it is unlikely they would entertain the idea of a British showing. A culturally conscious government would offer to mount it in the Banqueting House in Whitehall. That would be an appropriate homecoming for a marvellous exhibition.

Colin Amery

West front elevation for St Paul's Cathedral from the Chatsworth collection

Creditors, Latin

NEW END THEATRE, HAMPSTEAD

This resilient little converted mortuary in Hampstead has entertained strange bedfellows in its time, but August Strindberg and the slightly less august (but taller) Stephen Fry are surely unique. One author cannot do without women, while the other cannot wait to do without them. One is a Scandinavian master, the other was a prep school master. One wrote for the new European experimental chamber theatre, one writes for Rowan Atkinson and The Listener.

Strindberg's *Creditors* is a lacerating study in self-examination that retains its fascination and difficulty one hundred years on. *Latin*, sub-titled "Tobacco and Boys," is a spirited playlet dating from Fry's Cambridge days and the Edinburgh Festival fringe of the early 1980s; it is, in comparison, dated and arch. But a lot funnier.

It is hard, sometimes, to be constructive about ad hoc fringe enterprises that fail to live up to a fleeting whiff of promise. Robert Gillespie's double bill is such an occasion. The sulphurous, guilt-ridden ambience of *Creditors* entirely eludes the cast. You simply cannot do this intimate piece piece-meal. We have no sense of place in the holiday hotel as indicated by a hanging forest of cheap-looking white banners. Nor do you feel past lives and antagonisms burning through the three scenes of confrontation.

In the first, a crippled sculptor is manipulated by his friend's recourse to hypnosis and "suggestion." In the second, the artist encounters his wife; who, in the third scene, is revealed as his friend's first wife. Narrative revelation, though, is not the point, though that is all the point there is in this flat and ungainly production (using the Michael Meyer translation).

The play is not a study in mannerism, but an excavation of the soul. Karen Cooper plays the tormenting wife, who represents (more than she embodies) many of Strindberg's Siri-infested paranoias, with a ghastly suburban chirpiness and ice-maiden superficiality. The shadow of relationships, the reality of sex, the fear of abandonment — none of these figure.

Funnily enough, all crop up in the Fry, which prentice piece at least finds the Michael Malnick and Howard Samuels double act operating within known guidelines. Samuels plays the young Latin master whose crush on Cartwright leads him finally (with Cartwright) to Tangier, while Malnick's smooth senior master picks up the reins and recounts the bad news. ("All they have there is sun, money and sensual pleasure").

"Magister amat puerum." Using a form culled from Rattigan's school plays and Alan Bennett's *Forty Years On*, Fry's revenge on the public school system is both delighted and vicious.

Boys' books are hurled back at us with admonitory apostrophes worthy of Bennett himself ("Boys who rub me up the wrong way come to a sticky end") while a blackboard dissertation on what entitles you to free, or indeed any, tuck, is hilariously scuppered by a calligraphic confusion between a "t" and an "f."

As so often in school, it all comes down to handwriting. But there is pain here, too, of a poignantly superficial Anglo-Saxon sort. The Latin master at Chartham was set on a course of silently approved pederasty by that smoking session behind the Fives Court; his real downfall, though, lies in his clumsy attempt to fiddle Cartwright's entrance papers for Ampleforth. The only way out is Morocco, to the kind of silly sexual liberation Strindberg would never have understood.

Michael Coveney

La Bayadère

ROYAL OPERA HOUSE, COVENT GARDEN

When the West discovered the great Shades scene from *La Bayadère* in the 1960s, the widespread view of Marius Petipa, 19th-century ballet's most famous choreographer, was changed. Here was, people could see, the great last-century exponent of pure-dance choreography — and the Shades scene was the grandest statement of this side of his talent. Now, the fashion is to stage the whole of *La Bayadère*, with its melodramatic Indian scenario; big mime scenes and exotic grand-opera settings to make the case that Petipa was primarily a great dance-dramatist. And so the Royal Ballet, which used to dance the Shades scene by itself in Rudolf Nureyev's production, have now acquired the full-length version of this work that Natalia Makarova first staged for American Ballet Theatre in 1980.

The ballet is entertaining throughout its length. And, yes, it adds to our local notion of Petipa. Makarova's version includes superb old-fashioned painted scenery by Pier Luigi Samaritani. The mime scenes feature massive gestures in *good* silent-movie style (see the 1925 *Ben Hur*), some of which are terrific; I adore the slow and crushing arm-and-hand gesture used by the Rajah and his daughter, Gamzatti, to say "Exterminate."

As one who has a high time at the silent *Ben Hur*, I certainly welcome this *Bayadère*. Though none of the newly-gained dances are remarkable, some of them are great fun. But it's only the Shades scene that should compel attention as an extraordinary work of choreographic art. And it's hard at Covent Garden today not to be nostalgic for the way the Royal Ballet used to dance this until 1978 — harmoniously grand and focused, Elysian without bombast. A pity, too, that this scene now includes John Lanchbery's fussy orchestral redecoration of Minkus's finest melodic invention.

Everyone concerned at Covent Garden last week appeared to have gained something from this production. Makarova and her colleagues have given the Royal dancers a fresh injection of Kirov style. In particular, you could see dancers using their backs more than has become the norm and this may bring a richer harvest in seasons to come. As the temple dancer Nikiya, the celebrated Sylvie Guillem gave the least bizarre, most demurely correct, dancing I have seen from her. A shame that she made little of the plastique of this role, and that she merely sketched in the *grand adagios* of the Shades scene as if they bored her. Can she be more than the sum of her stunt? We have yet to find out.

Every feature of Jonathan Cope's performance as Solor — stance, gesture, line, jumps, turns — was individually applaudable but, comparably, that seems how he intended it to look. Fiona Chadwick, though none-too-spontaneous in manner, danced and mimed from a rich core of power, and so the role of the anti-heroine Gamzatti had force, pride and juice. From her, as from the dancing of Viviana Durante and Stuart Cassidy amid the third scene, I found reason to hope for the restoration of what the Royal has lost in the last ten years — a single local style.

Alastair Macaulay

Brilliant star of Glyndebourne glitz

The 1989 season at that strange festival, Glyndebourne, opened on Friday with the sun in the sky, glitz and conspicuous consumption in the foyers and on the lawns, and, inside the theatre, one of the most scaldingly serious and intense opera productions in the history of the enterprise. This is *Jenufa* (sponsored by Allied-Lyons), second in the current Janacek series, mounted by the team in charge of last year's *Katya Kabanova*: Andrew Davis (conductor), Nikolaus Lehnhoff (producer), Tobias Hoheisel (designer), Wolfgang Göbbel (lighting).

It has at its centre one of the most blindingly fierce and brilliant demonstrations of the singer-actor's art in Glyndebourne history. This is the Kostelnicka of Anja Silja, a sublime artist encountered too infrequently on British stages and making here her festival debut. She is not, of course, treated as a separate element in Lehnhoff's production, but lies at its very heart.

The village sextoness is a role generally proudly assumed — it is one of opera's greatest, and sopranos seldom fail it. What distinguishes Silja from all the other exponents of my experience is the apparently total lack of calculation in her portrayal: the difference between artist and character dissolves, the bond of identification is of gut strength.

Twin forces fire this production: the Kostelnicka's rigid self-control, in gradual and hideous disintegration, and her love for her stepdaughter. Silja's thin, tall frame, her back muscles, her long arms, and above all the scrubbed candour of her wonderful face fuse them. She and the producer show us a superficial orderliness of mind that is of utmost importance to the special power and intelligence of the staging as a whole.

There is a physical strictness about the playing rendered heartbreaking by the profound sense of inner turmoil underlying it. Since her Covent Garden Cassandra and Leonore, two decades ago, Silja has become a more controlled singer, but not a less emotionally affecting one: the raw edge and wobble are contained, the soulful radiance is undimmed.

The second instalment of the Janacek series shares physical features with the first — the use of flat colours in violent contrast, the skeletal interior props, the side-lighting and "placing" of shadow for dramatic ends — while making room for a much more naturalistic treatment of characters and conflicts. In Hoheisel's extraordinarily imaginative scheme there are oddities, such as the green sculpted hillock forming the back wall in Act 1 and, in Lehnhoff's authoritative handling, details to argue with (the villagers smash the Kostelnicka's furniture before their final departure, which may be good sociological observation but which sorts ill with the calm G major of Acts).

To set against this, there is an unrelenting power in the unfolding which in the small Glyndebourne theatre proves almost unbearable in the later two acts. It is a "loud" evening, and musically even a somewhat overwrought, airless one — no doubt the singers will all find ways to infuse more light and shade into their lines during the run, a process that will surely be paralleled in Davis's admirably muscular and "responsible" direction of the LPO (conductor and players all clearly much more inside the score than on the first night of last year's *Katya*).

Roberta Alexander as Jenufa

Roberta Alexander, another Glyndebourne debutant, sings the title role with fearless brightness (the top has a good, strong edge, the bottom is full and warm) and pinpoint control. She is a lovely artist, who has obviously warmed to Lehnhoff's essentially sympathetic view of all the female characters (one measures this also in the precise eloquence of Menai Davie's grandmother, and Linda Ormiston and Alison Hagley as mayoral mother and daughter).

Philip Langridge is a far more communicative and vocally resonant Laca at Glyndebourne than he was in Lyubimov's London production; Mark Baker is a solid Steva, a touch stolid. The worked-through, lived-in quality of the ensemble is a root element in the production's searing splendour — something which not even the hopelessly inadequate (and, from the stalls, largely invisible) surtitles can spoil.

The show will be seen on Channel 4 later in the year.

It is an argument for Glyndebourne's artistic seriousness that the first two composers of the season are Janacek and Gluck, two of opera's revolutionaries — uncomfortably plain-speaking, piercingly honest and beautiful musical dramatists both. Unfortunately, *Orfeo ed Euridice*, the second of the opening performances, is unseriously treated. The edition is a sloppy one ("in the original Italian," my foot!); the conducting of Hermann Michael is competent in an unstylish, out-of-date way, encouraging thick, stately sounds rather than fleet, urgent phrasing.

But more important, Michael McCaffery, using very few of the John Bury sets from Peter Hall's 1982 staging and wholly new John Bury costumes, has revived the chocolate-box approach to Gluck. The great "Reform" opera is delivered in the terms of the hey-nonny-no 18th century, with arty gestures and mimsy dances a perfect blend of Gainsborough Fêtes and lavender water. The Hall production was a failure of an honourable, strong-minded kind; it has been replaced with ghastly tweeness.

All this said, the evening is not a total loss, because Diana Montague's Orpheus is sung with the naked, passionate directness of manner and limpid beauty of timbre that unfailingly bring Gluck's phrases to life. Eurydice (Cynthia Haymon) and Cupid (Deborah Rees) are both excellent, and so the drama-through-the-voice core of the opera is preserved. But, by the standards of *Jenufa*, not to mention Gluck himself, it is a cruel disappointment.

Max Loppert

The Flight of the Firebird

BARBICAN HALL

For those who attended the complete performance of Rimsky-Korsakov's opera *Mlada* in this series a couple of weeks ago the final concert on Thursday night will have come as an intriguing appendage. The original plan of the Director of the Russian Imperial Theatres in 1870 was to piece together an opera of collective authorship and when his grand idea sank it left in its wake flotsam and jetsam of *Mlada* material by each of the four composers involved.

To conclude their "Flight of the Firebird" series Michael Tilson Thomas and the London Symphony Orchestra brought together three of these extant pieces — an exercise that probably raised more questions than it answered. None of the excerpts has survived in the form it would have taken in the opera and the hand of Rimsky-Korsakov was as usual everywhere in evidence, giving the same orchestral gloss finish to each scrap of music abandoned by his colleagues.

It was Rimsky's version that we heard of *Night on the Bare Mountain*, a work which unexpectedly qualified for inclusion as Musorgsky had at one point intended to use it for his act (the third) of the composite *Mlada*.

We also heard a further March by Musorgsky and what would have been the opera's finale, a more substantial movement whose long-breathed themes and exotic atmosphere, heady with sun-soaked textures, mark its composer out unmistakably as Borodin.

This last item was rescued by Rimsky, too, and presumably revised or orchestrated by him. Nevertheless, even after his handiwork a fundamental dichotomy of musical styles between the extracts remains and it is difficult to see how in their original forms they could ever have been put together.

From Rimsky to the Stravinsky of *The Firebird* is a logical step and Tilson Thomas made a fine choice with which to end his notably well-planned series. A score of this colour and vitality is home ground to the American conductor as much as it is to the LSO. That the Infernal Dance should have been delivered with such confident brass playing and tight rhythmic control was only to be expected, yet the many passages of fantasy, with their hushed string tremolandos and brilliant writing for the woodwind, were no less enthralling.

Richard Fairman

ARTS GUIDE

May 19-25

MUSIC

London

London Symphony Orchestra and Chorus conducted by Seiji Ozawa, with soloists including Hildegard Behrens, Jorma Hynninen and Christa Ludwig in a semi-staged performance of Strauss' *Elektra*. (Mon, Wed) Royal Festival Hall (928 8800).
The London Concert Orchestra, conducted by Brian Wright, with Elizabeth Layton, (violin). Mozart, Schubert, Mendelssohn. Barbican Hall (Tue) (638 8891).
Royal Philharmonic Orchestra, conducted by Edo de Waart, with John Williams (guitar). Adams, Gray, Stravinsky. (Tue) Royal Festival Hall (928 8800).
English Chamber Orchestra, directed by Philip Ledger, with Maciej Rakowski (violin), Mary Eade (violin), Olga Hegedus (cello), Dietrich Bethge (cello), Robin O'Neill (bassoon), Ian Cuthill (bassoon). (Wed) Barbican Hall (638 8891).
London Mozart Players, conducted by Jane Glover. With Philippa Davies (flute), Celia Nicklin (oboe), Luigi de Filippi (violin). Queen Elizabeth Hall (Wed) (928 8800).
The Bach Choir, with The Philharmonia, conducted by Sir David Willcocks, with Maldwyn Davies (tenor). Royal Festival Hall (Thurs) (928 8800).

Paris

Ensemble Intercontemporain, conducted by Lawrence Foster, with David Wilson-Johnson (baritone), Gerard Buquet (tuba). Toru Takemitsu, Enesco, Newson, Schoenberg. (Mon) Théâtre Renaud-Barrault (42560880).
Trio Argent, Mozart, Devienne. (Tue) Salle Gaveau (45632030).
Orchestre National de France conducted by Vaclav Neumann, with Elizabeth Leonskaja, (piano). Smetana, Mendelssohn, R. Strauss,Martinu (Wed) Salle Pleyel (45630796).
Groupe Vocal de France conducted by Guy Reibel, Martial Solal,(piano). Palestrina, Brahms, Tisne, Solal (Wed) Centre GeorgesPompidou (42771233).
Lausanne Chambre Orchestra conducted by Luis Garcia Nevarro. Nelson Freire (piano). Turina, de Falla, Rodrigo (Wed). Ewa Podles, (mezzo-soprano). Arriaga, Falla (Thur) both concerts at the Opéra Comique (47425371).
Orchestre de Paris conducted *by Daniel Barenboim. Mstislav-*Rostropovitch, (cello). Dvorak, Brahms (Thur) Salle Pleyel (45630796).

Berlin

Berlin Philharmonic with Jessye Norman (soprano), Hans JoergSchellenberger (oboe), conducted by James Levine. Strauss and Beethoven. (Tues, Wed) Philharmonie.

Vienna

Wiener Fest Wochen will dominate the scene over the next few weeks having opened on May 11 and continuing to June 18.
Wiener Windplayers. Mozart, Ehrenfeld. Konzerthaus. (Mon).
Wiener Symphoniker, conducted by Peter Guelke. Stravinsky. Konzerthaus. (Tues).
Wiener Philharmoniker, conducted by Carlo Maria Giulini. Haydn, Brahms. Konzerthaus. (Wed).
Kammerchor der Karlskirche, conducted by Adolf Winkler. Haydn's Stabat Mater, Karlskirche (Thurs).

Milan

Renato Brusen. (baritone) (Mon) with RobertKettelson. Donizetti, Rossini, Resphighi, de Falla andGranados. (809126) Teatro alla Scala.

Rome

Rafael Frubeck de Burgos conducting Falla (Fri) and Michel Plasson conducting Ravel. (Mon, Tues). (6541044) Auditorium in via della Conciliazione.
Mischa Maisky, (cello) Bach (Wed) (393304) Teatro *Olimpico*.

Amsterdam

Netherlands Philharmonic conducted by Gilbert Varga, with Ronald Brautigam (piano). Beethoven (Wed). Beurs (27 04 66).

Rotterdam

Rotterdam Philharmonic with Raphael Oleg (violin), Paul Daniel conducting. Debussy, Sibelius (Tue to Thur). Doelen (413 2490)

New York

New York Pops conducted by Skitch Henderson and hosted by Liz Smith celebrating the group's sixth anniversary with a gala mixed programme. Carnegie Hall (Mon) (247 7800).
New York Philharmonic conducted by Zubin Mehta with Stephanie Chase (violin) and Ju Hee Suh (piano). Dvorak, Tchaikovsky, Rachmaninov. Avery Fisher Hall (Tue) (874 6770).
New York Philharmonic conducted by Zubin Mehta. Bernstein, Hindemith, Strauss. Avery Fisher Hall (Thur) (874 6770).

Washington

National Symphony Orchestra conducted by Paavo Berglund with Joseph Swensen (violin). Sibelius, Nielsen. Kennedy Center Concert Hall (Tue) (254 3776).

Tokyo

Vienna String Quartet. Haydn, Mozart, Schubert. Suntory Hall (Mon) Schubert, Beethoven, Berg. Tokyo Bunka Kaikan, recital hall (Thurs) (498 5890).
Carlo Bergonzi (tenor) with Vincenzo Scarella (piano). Opera arias by Verdi and others. Shinjuku Bunka Centre (Mon) (320 6091).
Tonkunstler Orchester, Vienna, conducted by Isaac Karabtchevsky. with Gundula Janowitz (soprano). Mozart, Mahler. Tokyo Bunka Kaikan (Mon). Vivaldi, Beethoven, Suntory Hall (Tues). Mozart, Mahler. Hibiya Public Hall (Thurs). (403 1290).
Stuttgarter Kammerorchester. Martin, Hindemith, Schoenberg, Dvorak (Tues), Mozart, Bach, Tchaikovsky (Wed). Casals Hall (233 3193).
Lazar Berman (piano). Chopin, Prokofiev, Schubert, Liszt, Moussorgsky. Tokyo Bunka Kaikan (Wed) (265 5361).
Philadelphia Orchestra, conducted by Ricardo Muti. Beethoven, Ravel (Wed), Tchaikovsky, Persichetti, Brahms (Thurs). Suntory Hall. (289 9999).

National Gallery buys Cuyp for £8m

The National Gallery has acquired, for £8m, "River landscape with horsemen and peasants" by the 17th century Dutch artist Aelbert Cuyp. It is described by the expert on Cuyp as "the greatest of his landscapes." Even so the price, way in excess of anything paid for a Cuyp at auction, has caused some surprise.

The deal was negotiated between the owner, the Marquess of Bute, and the Gallery, by Agnew's, the Bond Street dealers. The money will go towards a heritage trust which *should ensure the future of the* family home on Bute, Mount Stuart.

The National Heritage Memorial Fund contributed £1.5m towards the price, and the National Art Collections Fund £250,000. The rest of the money came from the Gallery's own resources. It has an annual purchase grant, which has been frozen for many years, of £2.75m, but also has the investment income from a £50m donation by J. Paul Getty Junior. The £8m will be paid over three years and not carry interest charges.

The landscape was painted in the late 1650s; is large; and much admired. It was on show at the National Gallery in 1987 and has been on loan at the National Gallery in Scotland, which will be disappointed that Lord Bute was keen to do a deal with the National Gallery, which already owns ten works by Cuyp but none of this quality.

Only a dispersal on the open market at auction would have fixed the real price of the Cuyp, but Ms Georgina Naylor, director of the Heritage Fund, took soundings among dealers and experts and, along with the National Gallery, agreed that £8m was a fair valuation.

Good Cuyps, like good Old Masters generally, rarely come on to the market and the feeling *is that this sector is* due for a rapid appreciation in value, following the staggering prices paid for Impressionist and 20th century paintings at auction recently.

This theory will be tested in New York on May 31, when a portrait by the 16th century Florentine artist, Jacopo Pontoro, comes under the hammer at Christie's with a minimum estimate of $20m.

There is less disagreement on the valuation of the Cuyp than on Turner's "Folkestone," which Agnew's, with the agreement of the Tate Gallery, valued at £20m in 1987 and which has now been exported to Canada because no British gallery could raise such a high matching sum to keep it in the country.

Antony Thorncroft

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Hiatus in Argentina

ARGENTINA faces a very difficult interregnum as a result of the victory of the Peronist, Mr Carlos Menem, in last week's presidential elections. Just when the country most needs leadership to cope with uncontrolled hyperinflation, Argentina is saddled by its own constitution with a six-month wait before the formal hand-over of power in December.

The extent of these problems was made painfully evident last Thursday when Mr Menem conferred with President Raoúl Alfonsín, whose Government then announced yet another emergency revenue-raising economic package. It is a measure of the desperation or bankruptcy of the outgoing regime that it felt obliged to impose an export tax on agriculture, one of the few productive sectors of the economy. It is only marginal encouragement that it said it would reopen negotiations with Argentina's creditors.

Much more ominous was Mr Menem's statement that though he would not obstruct the imposition of the latest measures they were not his responsibility. The union movement, a Peronist stronghold, was less reticent in threatening extensive strikes this week.

Economic priority

The overwhelming economic priority, as the outgoing regime has acknowledged, is to bring some order to the country's public finances. Government spending is now running at two-and-a-half times revenue and a monthly inflation rate of close on 50 per cent reflects the failure of President Alfonsín to reconcile the conflicting claims of the main interest groups within the economy.

The positive aspect of the electoral outcome is that Mr Menem, with his Peronist credentials, is much better equipped to bring about a solution to Argentina's acute economic problems than President Alfonsín. With clear backing from the powerful trade union movement, a sizeable portion of the business community and almost the entire military establishment, he has the opportunity to put in place an effective programme of revenue enhancement and to provide much needed reassurance to Argentina's international creditors.

Yet Mr Menem's performance on the campaign trail does little to support the notion that he will rise readily to the challenge. In the meantime there is the risk that the economy will have deteriorated to such an extent by the time he takes office that it will be virtually unmanageable.

Leadership vacuum

The level of public confidence is all too well reflected in the growing crowd of poor people who daily jettison their shrinking australs in favour of the dollar. But it does not follow that the total demonetisation of the economy would necessarily spell an end to all prospect of economic stability. Bolivia has demonstrated that it is possible not only to return from hyperinflation under civilian rule, but that fiscal austerity and liberal economic programmes can command support among the electorate.

The more immediate aim in Argentina should be to address a leadership vacuum in which Mr Menem exercises power without responsibility by virtue of his *de facto* veto on policy between now and December. One approach might be for President Alfonsín to seek the tacit, or better still explicit, support of Mr Menem during the interregnum. But this would be far from easy, given both the powerful antagonisms between the Peronists and the Radicals and Mr Menem's understandable concern to avoid being compromised before he is even in the presidency.

However, Argentina's economic situation is so parlous that a consensual approach to government is probably the only viable way forward – the best hope of generating international confidence and dispelling fears of a return to the nationalism, corporatism and authoritarianism of the Peron era. In the meantime international creditors who have been obliged to forgo $3bn in interest arrears on $60bn of outstanding debt must wait for the dust to settle before deciding what options, if any, may be open under the new dispensation.

The EC muddle in telecoms

IS THE European Community serious about hauling its telecommunications industry into the information age? Last year, member governments unanimously endorsed the principle of deregulating the supply of equipment and services. Yet efforts to translate that pledge into action have stumbled at the first serious hurdle.

At issue is a proposal by the Commission in Brussels to liberalise "value-added" services, which combine the processing and transfer of electronic information. These are still in their infancy, but potential applications are expected to multiply as more business transactions and services become computerised. The Commission sensibly argues that opportunities for innovation will only be exploited fully if the market is opened to competition.

However, the plan has run headlong into opposition. Tactical ineptitude by Brussels is partly to blame. Instead of seeking to marshal support by reasoned argument, it opted for confrontation by deciding to impose its scheme under Article 90 of the Rome Treaty, a rarely used instrument of competition policy which governs public monopolies. This is widely viewed as an arrogant attempt to override national governments, some of which have threatened to challenge it in court. Even those which agree with the substance of the proposal are unhappy about the approach.

Procedural wrangling

The Commission now appears uncertain how to proceed. If it presses ahead under Article 90, it is likely to antagonise governments still further and could face a lengthy and unpredictable battle in court. If it reverts to a more conciliatory attitude, it risks losing the initiative or being forced to water down its proposals. Either way, the chances of a rapid resolution appear remote.

This descent into procedural and legalistic wrangling is all the more regrettable because it has provided an alibi for procrastination on the central issues. Whatever EC governments may say in Brussels, it is clear they are still deeply split about the virtues of deregulation and powerful resistance remains in some capitals.

A few have begun to follow Britain's example by deciding unilaterally to inject more competition into their telecommunications markets. They include the Netherlands and, more surprisingly, West Germany, once considered a die-hard opponent of change. Others, led by France, still appear set against any measures which would threaten the basic structure of their state-controlled telecommunications monopolies (PTTs).

'Cream-skimming' fear

Modest as it seems, the value-added services proposal is perceived to contain such a threat. One reason is the fear that it could lead to "cream-skimming" of PTT profits. Another is that it could make it easier for organisations such as IBM, the US computer manufacturer, to expand in telecommunications. Neither objection is valid. If a risk of "cream-skimming" exists, it is because telecommunications monopolies are charging inflated prices or because their costs are too high. The solution is not to restrict competition but to encourage it, so as to stimulate PTTs to rationalise their tariffs and improve their efficiency. To exclude potential new entrants from national markets flouts the objectives of 1992. Effective and impartial regulation, not chauvinistic protection, is the key to vigorous market growth.

In the past decade, technology has transformed telecommunications from a staid public utility into a versatile business tool, with an increasingly important impact on industrial efficiency and competitiveness. A growing number of countries have recognised that the traditional monopoly framework has become a rigid straitjacket, which creates costly distortions. As Britain has found, striking the right balance between the competitive and public service aspects of telecommunications is a challenging task. But those governments which are halking at liberalisation need to remember that the longer they delay, the bigger the costs to their own economies.

Peter Montagnon examines the Gatt talks on trade in services

Planes, banks – and laundry

ASK most outsiders what they consider to be the most important part of the Uruguay Round of trade liberalisation negotiations, and they will almost invariably point to the talks about reform of world agriculture.

Behind the scenes, however, another item, the liberalisation of trade in services, is quietly moving to the top of the agenda. It has not yet attracted much public interest, but if successfully negotiated it could transform a whole range of businesses employing millions of people and earning billions of dollars.

So far, the debate about liberalisation of trade in services has been so arcane and complicated that it has been easy for many of those potentially affected to dismiss the idea as one that will never really work. But now that the mid-term review of the Uruguay Round is complete, the talks are poised to move to a stage which will require hard decisions affecting real business activities.

The idea of negotiating a services agreement stemmed from the now widespread recognition of the role that service industries – ranging from banking and insurance to telecommunications, broadcasting, accountancy, transport and construction – play in the world economy. Only if they are brought into the rules of international trade, the argument goes, can the General Agreement on Tariffs and Trade (Gatt) retain its relevance as the policeman of the trading system.

The mid-term review produced agreement on a set of principles – such as equal treatment for foreign and domestic suppliers and non-discrimination between different foreign suppliers – that would underlie any framework for freeing services trade. Now these are established, the more difficult task has begun of testing them to see how they would fit into business reality.

It is a process that will force decision-making about such far-reaching matters as the freedom of investment flows, labour mobility and regulatory authority, and call into question restrictive trade practices, many of which have been in place for decades.

The close-knit group of services negotiators at Gatt in Geneva are shortly to begin examining the implications for six sample sectors: telecommunications, construction, transport, tourism, financial services and professional services (such as law and accountancy). The talks will not prejudice the final agreement and are intended simply to help produce a draft framework of general rules. However, most negotiators agree that, for the first time, the discussion will force governments to concentrate their minds on specific policy issues affecting services trade.

So far, the main private sector lobbyists on services have been US bankers and financial services executives like Mr John Reed, Chairman of Citicorp, and Mr James Robinson of American Express, whose companies have much to gain from improved access to foreign markets. Much less has been heard from representatives of heavily protected and regulated sectors like transportation which would be threatened by liberalisation.

As the potential consequences of what is under way are realised across the spectrum of service industries, the piecemeal approach which has characterised the talks so far could give way to an unseemly squabble between these two opposing sides. One industrial country negotiator, who like his counterparts elsewhere declines to speak on the record, says he is already receiving letters from shipping and transport companies seeking reassurance that their business will not be affected.

Even a cursory glance at the implications explains why. For example, a Gatt agreement on trade in services would call into question the whole edifice of practices on which transportation, just one sector covered by the talks, has relied for years. Taken to its logical conclusion, it would undermine:

● The elaborate system of bilateral air service agreements under which countries establish both landing rights and fare structures for international travel. Some economists argue that the rules of the Montreal-based International Civil Aviation Organisation which govern international aviation would have to be entirely rewritten, a process which would be as long and difficult as the entire Uruguay Round itself.

● The Unctad Liner Code which allows shipping conferences to set rates and apportion among themselves cargo traffic on routes between members' ports.

● The practice, prevalent in both air and shipping transport, whereby governments refuse to allow cabotage – that is, permission for foreign carriers to pick up traffic in their own country for onward carriage to another international destination.

The extreme sensitivity in the shipping sector to the merest hint of change is shown by the way in which the US Jones Act has come to be regarded as inviolate. This act decrees that coastal traffic between US ports must be carried in US-built, US-registered, US-owned and US-crewed ships. It was one of several service restrictions that the US refused to abandon during its free trade talks with Canada.

Yet, objections to the liberalisation process are not confined to private sector business. Barriers to trade in services never take the form of tariffs; they are mostly found in the regulatory regimes applied by governments to the sectors in question.

This raises technical problems on two fronts. First, in countries with federal systems, many of these regulations are applied by state or provincial governments whereas it is national governments which are negotiating in the Gatt. This is the case with the US where 33 states still bar foreign bank branches. Second, regulatory approaches and circumstances often differ. West Germany, for example, likes to regulate the insurance industry by product whereas the UK prefers to look at the quality of institutions operating in the market.

The restrictive trade practices of decades are now being called into question

Trying to make all these approaches conform to a common set of liberalisation standards will be caught up in the sectoral discussions that are now under way. Inevitably the talks will pose a threat to the power of existing regulators because trade officials working through Gatt will want to have more say in deciding which regulations are permissible and how they should be applied.

For both the US Trade Representative and the European Commission there is a lot at stake. A Gatt agreement on services would give the Trade Representative enhanced status *vis-à-vis* other Washington departments. Because it, rather than member states individually, negotiates trade issues in the Gatt, the European Commission would consolidate its right to influence service sectors that currently lie wholly or partly outside its competence.

Already a battle for authority over financial services is raging in both Washington and Tokyo. The US Treasury, which is long used to negotiating with a select coterie of other finance ministries around the world, wants to strike its own deal on financial services outside the main Gatt talks. This would follow the precedent established in the US/Canada agreement. Similarly, the powerful Japanese Ministry of Finance is determined not to lose its control over this area.

The question of which US department will be responsible for negotiating trade in financial services is so sensitive that it will almost certainly have to go to the cabinet, but there is a real risk that the whole services negotiation in the Gatt could unravel if the US does eventually try to set a precedent of separate treatment for financial services.

The European Community, which sees the services negotiation as leading up to a single package which must balance the interests of all its members, is adamantly opposed to this. It would also become much more difficult to keep regulators from other sectors, such as those involved in telecommunications, from seeking separate agreements.

Even when these issues are sorted out, there remains the fundamental problem of including the developing countries.

Most industrial country negotiators agree that there is little point in an agreement liberalising trade in services which would only be subscribed to by the richer Gatt countries – already in the throes of a sweeping deregulation process. But the interests of the industrial countries – which lie principally in securing the right for their service industries to invest and establish themselves in developing country markets – are at odds with those of the developing countries themselves.

Citing the unlikely example of the flourishing business in laundry flown south from Miami for washing in the Yucatan, Mexican officials point to the paramount interest of developing countries in fostering low-wage industries which also often involve a low degree of skill. That leads quickly on to the more serious question of labour mobility.

Nowhere is this question likely to be more acute than in construction. Here the argument runs that developing countries such as South Korea which are being asked to open their markets to foreign banks should be entitled in return to send their construction workers to industrial countries where they would have a competitive edge over better-paid local counterparts.

Free mobility of labour is something the industrial countries are never likely to accept. The mid-term review fudged this question but it will be impossible to ignore it once discussion of specific sectors gets under way.

Developing countries have never been as keen on the idea of liberalising trade in services as their industrial country counterparts, but their position appears to be softening. Some are beginning to realise that they already have interests at stake – for example in the area of software and data-processing. Even India, initially an outspoken opponent of the whole scheme, has an active data-processing industry which already handles much of the business of several major Swiss banks, but which has experienced difficulty entering the US market.

Yet the abiding fear of developing countries is that negotiating an international agreement on services in the Gatt will leave them prey to predatory multinational companies. There is a need, they argue, for their development interests to be taken into account, for example by building in measures to ensure that their domestic industries are not swamped by foreign competition, that they can develop their own exports, and that they have access to technology transfer and data transmission networks.

Quite how this can be achieved remains one of the great unanswered questions of the talks. The industrial countries remain clear that there cannot be wholesale concessions, above all for the more advanced developing countries. At best they might be prepared to consider special treatment on a country-by-country and sector-by-sector basis. Even so, they complain that they still need a clearer indication from developing countries as to what they actually want.

The plan is that by the end of the Uruguay Round in 1990 the negotiations should have progressed to a point where a framework agreement applicable to all services is complete and some practical liberalisation has already been agreed. Most people assume that detailed talks, especially on the way specific sectors would be affected, will have to continue beyond that point.

Given the great obstacles that lie in the way of the talks even this seemingly modest objective would be a major achievement. Yet if there is one general conclusion to be drawn from the mid-term review of the Uruguay Round, it is that the services negotiations have begun to acquire a momentum of their own. Even if they now turn out to be only half-way successful, it would still mean that a broad range of business activities hitherto untouched by trade policy will never be quite the same again.

OBSERVER

Evidence of the polls

■ The truly fascinating aspect of the Tory divisions on Europe is not so much the debate itself and the kind of Community to which Britain wants to belong, and could help to shape. That is interesting enough, and no doubt very important. In domestic political terms, however, there is a different question. Is this perhaps the first time that Margaret Thatcher has been wrong in her gut instincts of what the British people want?

After all, she has a formidable record of being right about the popular will in the past. She demanded a cut in the net British contribution to the Community budget long after the Foreign Office had told her she was going too far, and won. She also hung out for reforms of the Common Agricultural Policy, and gained some ground, though she compromised in the end.

And on most of the other issues that marked her premiership – law and order, capital punishment, trade union reform, the Falklands, South Africa – she has tended to be closer to the populace than to the establishment. It has done her no harm – so far.

Yet this time there is palpable unease in the Tory Party. It does not look good, for instance, for the Prime Minister to appear to be criticising the Chancellor of the Exchequer in a broadcast on Friday, only to put out a statement the next day that she meant no such thing.

Moreover, there is some genuine doubt about whether she has properly judged the mood of the country on Europe. One-off opinion polls are no great help on these matters: they give a snapshot of opinion at the time rather than recording a trend. A continuous sequence of polls on attitudes to Europe does not seem to exist in Britain. Yet there is a series of polls, called Eurobarometer, taken for the European Commission almost since the Community was founded.

For the record, the latest Eurobarometer findings do not show any British disaffection. On the contrary, British support for efforts to unify Western Europe has risen by nine percentage points since last autumn – from 61 per cent of those polled to 70 per cent. The percentage of Britons who regard membership of the Community as a good thing remains stable at 48. Just over one quarter of Britons view membership with indifference: much the same as in West Germany.

True, Britain and Denmark remain the only countries where a substantial minority is opposed to membership – over 20 per cent – but there has been no great change. And on the question of whether there should be common European rules on the protection of the environment, Britain is up at the top: 91 per cent said yes.

Even on the more controversial question of the social charter – whether there should be common rules throughout the Community on the rights and responsibilities of workers and employers – 65 per cent of Britons are in favour.

Perhaps Conservative Central Office has private polls showing different findings, but on past form the evidence of Eurobarometer cannot be lightly dismissed.

Honest Blot

■ The Prime Minister's anti-federalist speech in Bruges last September has spawned a host of acolyte groups in the rest of the Community, in imitation of the eponymous Bruges group in Britain. In France, the Thatcher creed is represented by the newly-formed Comité pour l'Europe des Patries, whose initial membership (70 per cent elderly university professors) is largely made up of old-fashioned nationalists and unreconstructed Gaullists.

Its moving spirit and secretary general, 40-year-old Yvan Blot, seems at first sight of only moderate interest. For two years (from 1986 to 1988) he was a Gaullist member of the National Assembly for a constituency in the northern departement of Pas-de-Calais, but he lost his seat in last year's general elections; he is still a member of the Calais town council as well as of the departmental Conseil Général. In short, a minor right-wing politician.

What was not immediately obvious, was just how right-wing. Last Friday, in a joint press conference with Jean-Marie Le Pen, leader of the extreme right-wing National Front party, he announced that he would be standing as a National Front candidate in next month's European Parliament elections.

Blot claimed that he remained profoundly attached to the Gaullist ideal of the Europe of nation states, which had been the ideal of the Gaullist RPR party, but which the RPR had abandoned. "It is," he said, "as a Gaullist that I join the National Front."

Tit-for-tat

■ Such is the state of rumour in and around the British Government at the moment that when word came from Sir Geoffrey Howe's office on Friday for political writers to be available on Sunday afternoon, the thought crossed the mind that the Foreign Secretary might just be resigning. He cannot, at present, be too happy with his lot.

Instead, the news was only of the expulsion of 11 Soviet citizens from Britain and, as it turned out, the Soviet retaliation.

This has become a ritual in Anglo-Soviet relations and one cannot resist the suspicion that the British Foreign Office rather enjoys it. There cannot have been the shadow of doubt that the Soviet Union would respond tit-for-tat; it always does. So the question is whether the presence of 11 identified Soviet agents in Britain is really so serious that it is worth having an equivalent number of British journalists and diplomats thrown out of Moscow.

Possibly the answer to that question is "yes", but it cannot be taken on trust. What is it that the Soviet agents are supposed to be doing – all, it would appear, under full British intelligence surveillance – that is so dangerous? And does the Foreign Office value our own people in Moscow so lightly that it thinks they are dispensable? The Foreign Secretary has some explaining to do.

Definitions

■ A pessimist is a woman who is afraid she won't be able to squeeze her car into a very small parking space; an optimist is a man who thinks she won't try.

Norma Cohen explores the issues the Stock Exchange Council will be discussing today

A debate intensified by fear

The Stock Exchange is a body which does not like to air its dirty linen in public. But the debate over its future has become so fierce that it has spilled over into the public domain where, some argue, it should have taken place in the first place.

The Stock Exchange's Council meets today to consider two reports on the body's future: one prepared by consultants Touchs Ross and the other by the Elwes Committee, a small group of market practitioners, all of whom remember the world before market practices were transformed in the Big Bang of October 1986.

The two reports come at the issues from very different perspectives, although on some key matters they are in tune with each other. The Elwes Committee's recommendations, though significant, would not bring about a fundamental change in the way the Exchange works. The Touche Ross report goes much further: it says that the Exchange's system of trade execution and reporting has some basic flaws.

Neither report, however, addresses what is really at the heart of the current arguments about how the Exchange should operate – profitability. So far, eight firms have pulled out of equities market making since Big Bang because their losses were so great. Estimates of as much as £500m in red ink for the market as a whole have been tossed about.

So the debate about how the Stock Exchange should operate in the future is no mere intellectual dispute. It is an argument about who will lose out, because there is simply not enough room for everyone to operate profitably. In some ways, who stays and who goes may be as much a function of what the new Stock Exchange rules look like as anything else.

Significantly, both reports fail to incorporate the views of those who are perhaps most important to the future of the exchange – investors and the corporations which raise capital there. However, both tacitly acknowledge that failure to run the Stock Exchange in a manner which serves the interests of these groups is likely to encourage the development of competing Exchange substitutes.

Predictably, much of the debate in both reports concerns the rights and privileges accorded to market makers, who are heavily represented on the Stock Exchange Council.

Market maker status in London developed after Big Bang, when jobbers – those firms which took principal positions in stocks – gave up their monopoly. Firms then became "dual capacity" in that they could be both principal and broker at the same time.

Probably the most controversial suggestion contained in the report prepared by the Elwes Committee – named after its chairman, Mr Nigel Elwes of Warburg Securities – is that market makers be required to meet certain minimum standards of performance in order to maintain their status. (Existing criteria concentrate on capital adequacy and the fitness of participants, rather than providing specific, enforceable, standards of performance.)

There is nothing new about setting standards for market makers. The Bank of England does it for gilt-edged market makers while the Federal Reserve does it for US primary dealers in Treasuries. But a committee of competitors deciding whether or not a firm may keep its market maker's privileges is bound to cause problems.

On the other hand, this proposal does go some way towards addressing the Exchange's most pressing problem, that of overcapacity.

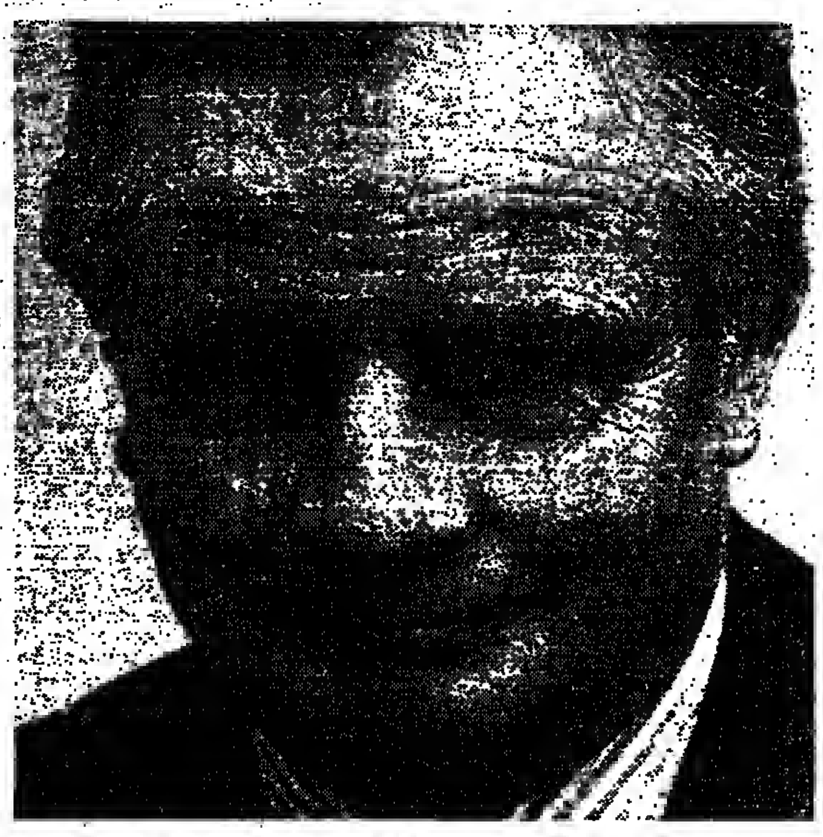
In its report, the Elwes Committee notes that the number of firms, 39, which applied for market-maker status in 1986, was "more than sufficient" and says that some mechanism is needed to weed out those which are only "fair weather" market makers, ones who make markets only when it is advantageous to do so.

Among the criteria listed for judging market makers is the volume of business done with clients directly, compared to that carried ont with non-related broking firms acting as agents. Also to be considered is the ratio of business done by the market maker through interdealer brokers and with other market makers, as opposed to end clients.

These criteria cannot help but please some of the Exchange's well established UK members, who are resentful of the intrusion of foreign firms with a great deal of capital but no UK clients. It is impossible to think that at least some members of the Elwes Committee did not have this in mind when they drafted the rule.

The Elwes report goes out of its way to say that it is anxious not to hinder the smaller market maker firms and that if all factors listed are taken into account, it believes the smaller firms will have no particular problem meeting minimum standards. But again, it is difficult to see how they would not bear the brunt of any enforced shakeout.

At a more fundamental level, the Elwes Committee report does not take issue with the mechanics of the current Stock Exchange. It is a "quote-driven" system – one that requires market makers to quote firm two-way prices at all times, which, in the absence of a trading floor, is done electronically on the exchange's Seaq screens. The alternative approach, as in the New York Stock Exchange, is an "order-driven" system. Under such a system, brokers bring investors' desired trades to a central market place, where they take place in the presence of a "specialist" in each stock, who ensures an orderly market. The prices publicly available are those of the most recent trade, rather than competing market makers' offers of prices at which they will transact the next trade.



Andrew Hugh Smith, chairman of the Stock Exchange: taking a publicly neutral stance in the debate over the Exchange's future

The Elwes Committee report does not quarrel with the Exchange's quote-driven approach, although it concludes that some elements of the alternative order-driven system are attractive. By contrast, the Touche Ross report notes positive elements in quote-driven systems but would prefer a more radical shift towards an order-driven system.

There is considerable intellectual debate about which system gives investors a more realistic picture of the value of securities. While an order-driven system tells investors the last price at which anyone was willing to buy or sell the securities, a quote-driven system will show the next firm price at which a market maker will deal. Is the real value reflected in a transaction conducted five minutes earlier or in the transaction conducted five minutes hence?

But beyond the intellectual debate, both systems have drawbacks. And the system in London is proving particularly damaging from a profit point of view.

"The quotation-based system is excessively dependent on market makers. This dependence requires complicated rules to protect their position, yet the rules cannot stop trade bypassing the market makers," says the Touche Ross report. It adds that some of those complicated rules are undermining liquidity and transparency and will ultimately deter international business from the Exchange.

To deal with the problem, Touche Ross urges that some of the market makers' most jealously guarded privileges be extended to broker dealers. In exchange for these new privileges, broker dealers would have to give more disclosure of some their transactions.

Market makers' privileges, in short, are worth money. They include access to stock borrowing facilities, freedom from stamp duty on long positions and access to trading accounts on the Exchange's Talisman system. Touche Ross's suggestion that these should be given up brought cries of derision from several members of the Elwes Committee who point out that the privileges are virtually the only real inducement to firms to make two-way prices under all conditions, good and bad.

The Touche Ross report was commissioned at the request of a Stock Exchange group known as the Chairman's Room, consisting of Andrew Hugh Smith, Chairman of the Stock Exchange, Stanislas Yassukovich of Merrill Lynch, the Exchange's Deputy Chairman, and Peter Stevens of the Bank of Liechtenstein.

While Mr Hugh Smith has been publicly neutral, Mr Yassukovich has criticised one of the Elwes Committee's first decisions, implemented at an early stage of its deliberations six months ago. This was a set of rule changes which ended the requirement for market makers to deal directly with each other, and delayed for a day the publication of transactions of over £100,000. These moves caused an outcry, particularly from US members of the Exchange. Privately, Exchange officials say the Touche Ross report was commissioned precisely because it was feared that the Elwes Committee was too parochial in its orientation – only one foreign firm is represented on the subcommittee which drafted the report – and it was felt that the future of the Exchange should be considered in an international context.

The Elwes Committee's report argues that the rule changes were necessary because the existing regulations were encouraging institutions to "piggy-back" off prices listed on market-makers' screens by arranging deals with each other.

The Touche Ross report, however, says it can find no evidence of any significant off-market trading – a view loudly proclaimed by opponents of the rule changes.

Clearly, both reports represent views held by entrenched interests on the Stock Exchange and it is difficult to believe that any decisions about the future of the Exchange will be reached at today's meeting. After all, firms are being asked to decide on rules that will determine whether they stay or go and such decisions are not made lightly.

However, it is clear from both reports that Exchange members realise they cannot procrastinate forever. The current system, the Touche Ross report notes " . . . may mean that the International Stock Exchange has an inherently flawed structure that will inevitably lead to further erosion of its role as a central market."

LOMBARD

A Faustian bargain

By John Lloyd

WE HAVE accustomed ourselves to seeing reform in the Soviet Union, Poland and Hungary as the reformers themselves wish to see it: as a journey from one zone to snother, s journey during which the aspects of the first zone gradually give way to those of the second. The journey may be shorter nr longer: indeed, it is commonly said by the reformers that it is taking "longer than at first thought." But the form of it is not seriously questioned: as these economies leave the command-planning system, so they become more market-ised.

There is another way of seeing it, and this vision, borrible as it is, is flashing nn the inner eye of the Polish and Hungarian reformers at least, and probably on that of their Soviet counterparts as well. It is that the problems of the reform period are not a process but a condition: thst hsving abandoned the command model, the market remains out of reach; that being seized of the constrictions and absurdities of the *Total Plan*, and having scrapped it, the authorities cannot grasp an even partially free market.

The reform communist countries find themselves in unique positions: no state hss been where they now are. It is not just a mstter of "liberalising": many countries have done that, indeed, it has been the common socio-economic direction of the 1980s. "Liberalising" means s greater or smaller number of notches away from state intervention and though, as the British especially know, that causes turmoil, it is not in the same class as what has not yet happened in Eastern Europe.

The command economy was not a way of running the economy. It was above all a *political* construct – begun in ignorance, developed in terror, cemented in corruption (and that was the part of it which worked). Its bottom line was not profit but the party. The peasantry was destroyed because they were a *class* more than an economic obstacle. Industrialisation was forced more because the party wanted to create the leading class in society – the proletariat – than because it wanted to advance the standard of living. Russian imperislism took Soviet form as much for the fulfilment of ideological prophecy as for defence or territorial acquisition.

Communism has never been intelligihle without understanding the extraordinary idealism which pulsed through it, creating mass murderers from men and women of high intelligence and courage, and presenting defendants at show trials who could say, with sincerity, I cannot be right where the party says I am wrong.

That is whet made the system work. So powerful was it, in its Stalinist period, that its mnmentum cnuld carry nn through the "years of stagnation." It proved incapable of burying capitalism or even of raising living standards, but its rules were known if not loved. It provided real security to people who had never known such a feeling; it left, more or less, spsce fnr endeavonr in the hlack economy; and it kept the show on the road.

Now it must cede to the market place. But who will command the new ground? A peasantry which has been proletarianised and does not love the land? Workers who hsve generations of shoddy half-work behind them? A managerial class which must brlbe or twist for most resources and which has never had to bother to sell, market or innovate? A public which is fearful of the sacrifices market reforms will bring and which envies the profits made hy the tiny new entrepreneurial class? Suppose it cannot be done: that the project is outside the political possibility, at least in an orderly fashion in which the political losses are minimal?

Professor Jan Mujzel, a Solidarity economic adviser, calls this state a "socialist hell". He may have in mind Mephistopheles' remark to a surprised Faust in Marlowe's version of the myth: "This *is* hell, nor art thee out of it" – a realisation the Polish, Soviet and Hungarian reformers are beginning to fear they may share. The tragi-comedy of the Esst European élites may be this: that they made the Faustian bargain with the market and it cannot be delivered.

LETTERS

Strategy for debt

From Mr Jonas Nycander.

Sir, The Third World debt crisis has been going on for years with no solution in sight. On the contrary: debt burden is increasing.

Two different strategies have been tried. Commonly, repayments are deferred after negotiations with the International Monetary Fund (IMF) and the banks, and the indebted country receives new loans to pay the interest. In return for these it agrees to liberalise the economy, reduce the budget deficit and various snbsidies, and devalue the local currency.

These programmes have managed to increase growth in some countries (the social conseqnences have sometimes been severe). The main weakness, however, is that the indebted countries have still not been able to keep the new repayment plans; these have to be negotiated again and again. Actually, most people seem to agree that, in many cases, the debts are so big that it is completely out of the question that they can ever be paid back.

In the second strategy the indehted country takes the consequences of this fact and unilaterally stops paying (or pays only a small part). Because it is then denied new loans, a foreign account deficit will result in immediate payment crisis. Even the most necessary imports cannot be paid for, and the general state of the economy becomes chaotic. Finally the country is forced to negotiate with the banks again – but now its position is much worse. (This strategy was tried by Peru, but the consequences were discouraging.)

The lesson is that none of these strategies can succeed separately. The solution is to follow both simultaneously.

The indebted countries should unilaterally declare that they will not pay back the loans, and at the same time abolish all restrictions on the currency market. When a currency is floating, it will first attain a rate of exchange which will maintain an approximate balance in the foreign trade. When a country has large debts, the equilibrium rate will instead be such that a trade surplus large enough to service the debts is generated.

But if the debts are so large that they are simply impossible to serve, *there is no equilibrium rate*. Keeping the principle that the debts should be paid back therefore makes it impossible to carry out one of the most important parts of a liberalisation programme: to let the local currency attain its natural exchange rate.

Conversely, it is only possible unilaterally to stop paying back the loans if the currency regulations are simultaneously abolished. Foreign currency for essential imports will then always be available – even if the price is very high – and there is no risk of an immediate payment crisis. After some time the rate of exchange will be such that the foreign trade is in balance, without consideration of the foreign debts.

When it has become clear that this donble strategy works, and the banks realise that their means of coercion are, therefore, useless, it will probably not be long before they offer a completely new kind of deal.

They will propose that the loans are written off – not by 20 per cent or 30 per cent, as is now being discnsssd, bnt maybe 70 per cent or 80 per cent. (The indebted countries would be wise to wait before *accepting* – all they can gain is the right to take new loans.)

Why has nobody realised that these two strategies must be followed in parallel? Probably the banks already have. It is only the usual way to deal with bankruptcies: when someone can no longer pay his debts he forfeits his right to act on the market – here, to control the currency exchange. At the same time the debts are written off and life goes on.

But the banks cannot be expected to propose a solution which means they lose their money. Besides, they can only carry out one of the two necessary parts of the strategy: writing off the debts.

The initiative must come from the indebted countries. The reason why they have not tried the solution outlined here may be political. A unilateral declaration that the loans will not be paid back is usually supported by the left and by nationalists; the other part of the strategy by liberals and conservatives. The proposed double strategy, on the other hand, offers a possibility for compromise which could overcome political polarisation in these countries.

Jonas Nycander,
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'Faith is not enough'

From Mr Chris Jones.

Sir, Joe Rogaly's criticism of Mrs Thatcher's European policies ("The Europe of the saloon bar," May 19) suffers from a wine bar perspective.

There is littls reason to think that talking tough, or acting tough toward the European Community is "anti-European" – on the contrary, by confronting real problems Mrs Thatcher is developing into a better "European" than Mr Edward Heath has ever been.

Putting it another way, Mrs Thatcher is the antidote to Mr Heath and other traditional, Monnetesque "Europeans", to whom European unity is a faith. Criticism, in their eyes, is apostasy. From this soppy attitude (excuse the saloon bar language) comes the fear that if problems of integration are confronted too bluntly, then integration will be retarded.

Continuing to propagate this viewpoint does not make Mr Michael Heseltine (in Mr Rogaly's words) "the clearest and most statesmanlike voice in the land." It makes him the purveyor of tired old clichés, weak analogies parading as political wisdom, and a highly selective view of history.

Economic and political integration within Europe will only be achieved if political leaders understand that it is a difficult, potentially dangerous task that may well fail. Avoiding the toughest, everyday problems makes failure almost certain. Faith – as the lads down at my local like to put it – is not enough.

Chris Jones,
21 rue Framery,
Boulogne-sur-Mer,
France

Co-integration may be more valuable than chaos

From Professor Christopher Gilbert.

Sir, Professor David Stout (Letters, May 17) dismisses forecasting in business economics too lightly.

It is fashionabls to argue that economics are chaotic. This would imply that very small changes in initial conditions would result in substantial changes after a period of time. Clearly this would make forecasting further ahead than the very near term impossible.

In fact, although economies are very complicated, they do not appear to be chaotic. Indeed, in many cases we may be able to forecast the medium to long term with greater accuracy than the short term.

A topical example is provided by metals prices. These have shown enormous and unpredictable variability over the past 18 months, but in the longer term we know that prices must fall to the level of production costs.

Similarly, in the long term the value of the dollar will be determined by purchasing power parity – but in the short to medium term there can be substantial unforecastable deviations from this level.

These long run relationships, which are entailed by economic theory, require that economic time series exhibit the property of co-integration. I recommend this concept to Professor Stout as of much greater value to business economics than the concept of chaos.

Christopher Gilbert,
Department of Economics,
Queen Mary College, University of London,
Mile End Road E1

Writ in water

From Mr Edward Troup.

Sir, The headline writer for your article on water privatisation ("Water, water everywhere but will investors drink?" May 5) had in mind the lines from Coleridge's Ancient Mariner: "Water, water everywhere nor any drop to drink."

I can only trust that the preceding lines of the poem are not an indication of the likely attitude of directors to the newly privatised companies: "Water, water everywhere and all the boards did shrink".

Edward Troup,
14 Dominion Street, EC2

Regrettably, an editing error caused Mr R.V. Ashdown's reference (Letters, May 19) to PSDR (public sector debt repayment) to appear as PSBR (public sector borrowing requirement).

FINANCIAL TIMES
Monday May 22 1989

Janet Bush on Wall Street

Hard birth for 'basket' products

BY ALL ACCOUNTS, it was a difficult first week trading the new derivative products which allow an individual investor to buy and sell a certificate representing all the stocks in a major index such as the Standard & Poor's 500.

No one knew quite how difficult until last Friday when the Philadelphia Stock Exchange, one of two exchanges which started trading index participation or "basket" products a week earlier, suddenly lost its cool.

The Philadelphia exchange sent a letter to the American Stock Exchange charging that basket products had been its idea and that the Amex was a copycat. It asked the Amex to stop trading its version of the basket product.

The Philadelphia Stock Exchange's cry of foul is understandable to the extent that it had begun talking about its Cash Index Participation (CIP) shares before anything was ever heard about the Amex's Equity Index Participations (EIP).

Philadelphia, which had been working on the idea for a good four years, was the first exchange to propose trading a basket product in a submission to the SEC in March 1988. The Amex followed up with its similar product a few weeks later.

However, there was ample opportunity for the Philadelphia exchange to have challenged the Amex on copyright grounds before the SEC lifted its stay on trading the products on May 12.

The start of trading has been endlessly delayed hy court proceedings in which the two major Chicago futures exchanges argued that index participation products are really futures contracts and should not be regulated by the SEC. That litigation is still to be finally resolved.

The very fact that the SEC gave the go-ahead to both exchanges on May 12 suggests that the regulators have no problems with the Amex's product.

Even the least cynical onlooker must conclude that Philadelphia was prepared to rely on its product to attract business and engage in battle with Amex until it thought it was losing to its competitor.

According to wire reports, 2,253 Equity EIPs based on the S&P 500 traded at the Amex on Thursday compared with 60 CIPS on the Philadelphia. By Friday lunchtime, wire reports said that 2,200 EIPS had traded and only seven CIPS.

Both exchanges acknowledged that there was little trading from individual investors hut that most of the volume was done by specialists and market makers.

Basket certificates or units replicate the stocks in a major index and offer the individual investor the chance to trade an entire index without paying the commission and management fees involved in an index-based mutual fund.

Large institutions have long used programmed trades to buy and sell an entire index, hedged in the futures market. Now the advantage of tracking an index – which invariably outperforms old-fashioned stock picking funds – is available to individuals.

The last week's experience probably does not fairly reflect prospects for the new product. Both exchanges were surprised by the go-ahead on May 12 and had to scramble to send out risk disclosure and options agreements to brokers to hand on to their customers before they could trade.

Some brokers are also not willing to market the products to their customers until the litigation with Chicago is cleared up.

However, the Amex was notably more upbeat than Philadelphia last week. Mr Howard Baker, senior vice president in the options division of the Amex, said that the exchange had never received so many phone calls enquiring about a new development.

Mr Joseph Rizzello, senior vice president of marketing at the Philadelphia Stock Exchange, described the SEC's go-ahead a week ago as another hurdle surmounted hut said that educating potential customers about the new product could take anywhere between six and 18 months.

All the boosterism on one side and the caution on the other has to be seen in the context of the surge last Friday of the Dow Jones Industrial Average above 2,500 for the first time since the week before Black Monday.

The more spectacular the major indices on the New York Stock Exchange, the more the smaller exchanges have to struggle for their voice to be heard and attract new business.

US STEPS UP PRESSURE

Japan 'should top unfair trade list'

Peter Riddell, US Editor, in Washington

JAPAN should be named as a priority country adopting unfair trade practices against the US and facing possible retaliation, Mr Robert Mosbacher, US Commerce Secretary, argued over the weekend ahead of an announcement also expected to include Brazil and India.

The Bush Administration is about to take its long-awaited decision on which countries and trading practices should be listed as priorities maintaining unfair barriers against US exports.

Under the Super 301 provision of last year's Omnibus Trade Act this triggers a lengthy process of negotiation before any retaliatory action is taken.

It now looks possible that the list could be less wide-ranging than originally suggested and may exclude the European Community, South Korea and Taiwan. The favoured, though not final, option is to name Japan for the refusal of its government to buy US satellites and supercomputers and for its stringent lumber standards which in practice exclude US products; Brazil for its rules on trade licensing; and India for its restrictions on foreign investment and foreign-based insurance companies.

An announcement could come as early as Thursday after President George Bush resolves a vigorous dispute between senior members of the Administration. At a preliminary discussion of the Cabinet-level economic policy council, Mr Mosbacher, with Mrs Carla Hills, US Trade Representative, favoured a tough line, while Mr Richard Darman, budget director, and Mr Michael Boskin, chairman of the council of economic advisers, argued against any action.

Mr James Baker, Secretary of State, and Mr Brent Scowcroft, national security adviser, are reported to have argued against undermining Japan's position as a strong US ally and financer of the US Budget deficit.

Current discussions are focused on the presentation of the announcement to meet strong Congressional pressure for action, especially against Japan, while minimising antagonism overseas. One possibility is that only specific trade practices rather than entire countries would be named, thus avoiding a process leading to mandatory wholesale retaliation.

Justifying the inclusion of Japan, Mr Mosbacher argued in an interview that while a strong ally, the Japanese were "sometimes unfair trading partners. We should bring that to their attention so that they will open their markets." He acknowledged that there was a difference of opinion on the issue between cabinet members – "and the old saw is where you stand in Washington is where you sit."

The European Community may be excluded from the Super 301 list partly to avoid an open confrontation across the Atlantic when the US is pressing the Community to avoid a protectionist Europe after the creation of the single market in 1992, and also at a delicate stage of talks over agricultural subsidies. The EC has warned that it would challenge any US action.

The Administration may omit South Korea and Taiwan partly because of recent moves to reduce trade barriers.

London and Moscow enter new round of diplomatic expulsions

By Robert Mauthner in London and Quentin Peel in Moscow

BRITAIN appealed to the Soviet Union yesterday to stop its intelligence-gathering activities in the UK after tit-for-tat expulsions of 11 diplomats and journalists by each country threatened to undermine the recent improvement in bilateral relations.

The incident, which was triggered on Friday when Britain expelled eight Soviet diplomats and three journalists, was kept secret by the Foreign Office until Sir Rodric Braithwaite, the British Ambassador in Moscow, announced yesterday that the Soviet Union had retaliated with "mirror image" expulsions. A further three British diplomats, who had already left the country, had been declared persona non grata.

The Soviet Union also told the British Embassy that it would be operating a quota system for British citizens in future, on the same basis as the quota imposed by the UK government in London. This would set a ceiling on all British nationals working in the city, regardless of whether they were diplomats, journalists or businessmen.

Sir Geoffrey Howe, Foreign Secretary, stressed in a BBC radio interview that the Soviet expulsions were unjustified, while claiming that he had "incontrovertible evidence" that the Soviet diplomats and journalists ordered out of Britain had been involved in activities officially described as "incompatible with their status," a euphemism for espionage.

The Foreign Secretary was at pains to emphasise that Britain attached great importance to the fact that its relations with the Soviet Union "have been, and indeed are, better than they have ever been before."

The British security services are known to have been worried for some time about the increase of Soviet intelligence activities in Britain. These are reported to have been restored to about 60 per cent of their level before the defection in 1985 of Mr Oleg Gordievski, at that time Moscow's top agent in Britain. Information given by Mr Gordievski led to the last big tit-for-tat bout of expulsions of 31 diplomats and journalists by each side four years ago.

The latest expulsions came only six weeks after Mr Mikhail Gorbachev's successful visit to Britain.

Sir Geoffrey indicated that, if the latest setback to Anglo-Soviet relations could be forgotten in a reasonably short time, the Queen's visit to the Soviet Union in response to Mr Gorbachev's invitation could still go ahead in about two years.

All those expelled from Moscow and London have been given 14 days to leave.

Clouds in the Anglo-Soviet sky, Page 8; Observer, Page 18

Protesters prepare for move on square

Continued from Page 1

claimed that the army has been called in to help police restore order and is not directed against the demonstrators.

Some student leaders claimed in the early hours of today that they were told that the Communist Party leadership had met and that party leader Deng Xiaoping and Premier Li Peng had resigned.

Li Peng declared martial law when striking students refused to end their occupation of Tiananmen Square, but in a further embarrassment for the Government, he has not been able to enforce the order and the city remains in the hands of students, workers and their supporters.

There is widespread speculation that the Communist Party Secretary Zhao Ziyang resigned or was sacked after opposing the Government's tough line on the protest.

Peking Mayor Chen Xitong went on television today to appeal to workers to stay at their posts claiming the city was running short of coal and other essential supplies and would face a blackout and serious shortages unless order could be re-established. There have been runs on food stores. Public transport has all but halted, and many roadways made impassable by barricades.

Hundreds of thousands of people remained in the square last night, many believing that a move would be made to drive some four army commands and an additional division through the blockades into central Peking. By last night, however, there had been no indication that troops and tanks stationed east of Tiananmen were about to move.

The rebellion was mirrored on a smaller scale in cities around China particularly in Shanghai where tens of thousands of demonstrators have staged a sit in outside Communist Party headquarters.

Press censorship, briefly suspended during the early stage of the student movement, has been reimposed.

Foreign journalists have been told to keep out of Tiananmen Square and other crucial areas and the security forces have been given carte blanche to use whatever steps necessary to maintain order.

Hong Kong paralysed

Continued from Page 1

received a significant boost when the pro-Peking Communist-based Federation of Trade Unions appealed to its members to attend. The call was also taken up by other union, community, and religous groups.

The event started in the central financial district at around 2pm with a series of packed meetings. A sea of 200,000-300,000 protesters spread across streets and pavements.

There were recent hunger strikers wearing red headbands and others in yellow and white, providing experienced leadership for the swelling crowds.

The police estimated the total at 1m hy the time the march had gone through Wanchai and Causeway Bay and back to the racecourse, though other estimates were lower at something over 500,000.

It took five hours for them all to file into the racecourse and walk 20-30 deep round the dirt course, watched by more protesters who were let into one grandstand. The Jockey Club had been persuaded by the government and police to allow their hallowed ground to be used because there was nowhere else so large and convenient – the course is across a street from the students' main target of the Xinhua News Agency, Peking's de facto embassy in Hong Kong.

At the racecourse the rally turned into e political carnival lasting until 10pm after the leaders announced the formation of a unified democracy organisation that supported the Peking demonstrators

The events in Peking will make liberal campaigners more determined to speed up the introduction of democracy as e bulwark against intervention hy Peking after 1997.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	23	73	Dubrovnik	F	19	66	Malta		–	–	Rhodes	F	27	81
Algiers	F	21	70	Edinburgh	S	13	55	Manchester	S	23	73	Rio de J'o	C	29	84
Amsterdam	S	25	77	Faro	S	21	70	Manila	R	30	86	Rome	S	27	70
Athens	S	24	75	Florence	F	24	75	Melbourne	F	15	59	Salzburg	F	20	68
Bahrain	S	34	93	Frankfurt	F	25	77	Mexico City	F	27	81	San Francisco	F	11	52
Bangkok	F	35	95	Funchal	F	21	70	Miami	S	23	73	Seoul	C	20	68
Barcelona	F	20	68	Geneva	S	23	73	Milan	S	27	81	Singapore		–	–
Beirut		–	–	Gibraltar	C	21	70	Montreal	R	18	64	Stockholm	S	14	57
Belfast	S	19	66	Glasgow	S	20	68	Moscow	F	12	54	Strasbourg	S	25	77
Belgrade	F	17	63	Guernsey	S	23	73	Munich	F	21	70	Sydney	C	18	64
Berlin	S	20	68	Helsinki	F	14	57	Nairobi	C	23	73	Taipei	C	31	88
Biarritz	S	25	77	H. Kong	C	27	81	Naples	F	24	75	Tangier	C	22	72
Bombay	F	32	90	Innsbruck	F	20	68	Nassau	C	30	86	Tel Aviv	S	31	88
Bordeaux	F	28	82	Inverness	S	19	66	New Delhi	S	41	106	Tenerife	F	23	73
Brussels	S	25	77	Islamabad	C	36	97	New York	C	22	72	Tokyo	F	22	72
Budapest	F	22	72	Istanbul	F	26	79	Nice	S	21	70	Toronto	S	13	55
B. Aires	F	18	64	Jakarta	C	32	90	Nicosia	S	33	91	Tunis	S	23	73
Cairo	S	37	99	Jersey	S	21	70	Oporto	S	19	66	Valencia	R	19	66
Cape Town	C	18	64	Jo'burg	S	20	68	Oslo	S	20	68	Venice	C	23	73
Caracas	C	28	82	Lima	F	21	70	Paris	S	27	81	Vienna	F	21	70
Casablanca	C	21	70	Lisbon	F	20	68	Peking	S	31	88	Warsaw	S	13	68
Chicago	F	13	55	London	S	24	75	Prague	T	18	64	Washington		–	–
Cologne	S	25	77	Los Angeles	F	14	57	Reykjavik	C	8	46	Zurich	S	23	73
Copenhagen	S	16	61	Luxembourg	F	23	73								
Corfu	C	23	73	Madrid	F	25	77								
Dallas	F	21	70	Majorca	C	24	75								
Dublin	S	17	63	Malaga	S	22	72								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK backs early start on Delors

Continued from Page 1

phases two and three," commented Mr Onno Ruding, the Dutch Finance Minister. "Others might say he has not."

Establishing the UK's exact position is made more difficult by Prime Minister Margaret Thatcher's pnhlic criticism last week that her Chancellor had geared UK interest rates too much to keeping sterling in line with the D-Mark and too little to containing domestic inflation.

The dispnte hed been patched up, Mr Lawson said, when the Prime Minister had telephoned him in Spain on Saturday. "The Prime Minister said to me she had been interpreted in the newspepers wrongly – she is not in any sense hlaming me for inflation."

The policy in 1987-88 for sterling to shadow the D-Mark, he said, "is not the reason why we have the level of inflation we have at the present time." Interest rates outside the US might have to rise again, he warned, to prevent the dollar repeating its stratospheric rise of 1983-85 which had caused an upsurge in US protectionsim. "Inflation is generally trending upwards," he said.

The finance ministers wanted to leave firm commitments on such a momentous political issue as economic and monetary union to government heads next month.

Nevertheless, a pattern emerged with France, Italy and Spain, plus the European Commission, proving the keenest on rapid movement towards a change in EC monetary institutions.

UK defence talks likely to clear new Plessey bid

By David White, Defence Correspondent

BRITISH Ministry of Defence officials hope to complete negotiations by the middle of next week with General Electric Company of the UK and Siemens of West Germany on the conditions that would clear the way for a renewed bid by the two companies for the Plessey electronics concern.

The imminent conclusion of negotiations is believed to be one reason why Plessey is bringing forward to today the announcement of its annual results. City analysts expect it to make a strong profit forecast in an effort to holster defences against a renewed bid.

The negotiations on safeguarding UK defence secrets and ensuring competition in a key battlefield electronics programme are understood to have proved more complex than expected. The fact that they have already taken four weeks is seen as an indication of the toughness of the MoD demands.

In particular, MoD insistence that GEC should exchange data with potential competitors on the Joint Tactical Information Distribution System (JTIDS) has run into difficulties with the US Department of Defence, which initiated the programme.

Although officials aim to meet the deadline set by the Monopolies and Mergers Commission last month, when it gave provisional approval to the takeover plan, senior levels at the MoD would not be disappointed if the bidders abandon the enterprise in the face of the conditions being set.

Negotiators have until the end of the month to complete a series of undertakings by GEC and Siemens, under a 40-day commission deadline.

The MoD is responsible for two of the three sets of undertakings. The Office of Fair Trading is negotiating the third, a pledge by GEC that it will "not acquire any interest in or control or influence over" the Plessey divisions that are earmarked for Siemens ownership under the takeover plan. These involve Plessey's radar and military communications operations.

Mr George Younger, Defence Secretary, is due to be advised of the results of the MoD negotiations next week. The terms of draft undertakings would then be submitted to Lord Young, Trade and Industry Secretary.

The JTIDS programme, on which the MoD is seeking specific guarantees, involves a crucial electronic link between aircraft and surface forces. It was started with Pentagon funding by the US Singer company, the electronic systems division of which was taken over by Plessey last year.

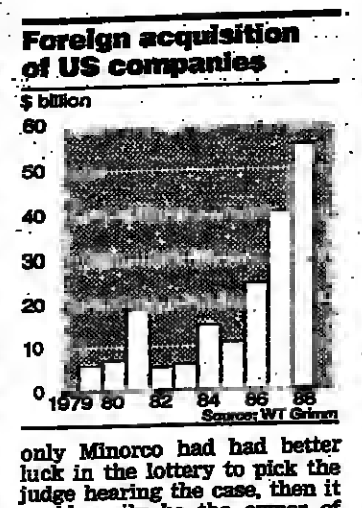
The MoD originally intended GEC-Marconi and Plessey to compete for equipment contracts on the British end of the project. But in the event of a successful GEC/Siemens takeover, which would involve a GEC taking 75 per cent of the US subsidiary, the MoD wants GEC to share the technology with other competitors. This opens up a potential conflict with the Pentagon, which insists on controlling which companies have access to classified US programmes.

Among the security concerns in sectors which would be taken over by Siemens is a Plessey radar being developed for the next "Field Standard C" generation of Rapier missiles, a £1.5bn ($2.6bn) project due to come into service in the mid-1990s and to provide the main low-level air defence for British forces.

THE LEX COLUMN

Reining back the market maker

In a certain sense, the differences between the two rival reports on the future of the London Stock Exchange are so transparent as to be laughable. The official report from the Elwes committee, while admirably lucid and thorough, has an unashamed bias towards the established market-makers. The alternative version from Touche Ross, commissioned by such as the chairman of the International Stock Exchange and Mr Yassukovich of Merrill Lynch, has more international leanings. On the surface, the debate is about whether London should retain its quote-driven system, or move to an order-driven system on the foreign model. But the fact is that the first relies heavily on the capital already invested by the market-makers, while an order-driven system would largely dispense with it. Guess which report favours which.



In other respects, the issues addressed are deadly serious. As the Touche Ross report points out, the huge amounts of capital invested by the market-makers require a return, which must ultimately take the form of a cost to the market user. There is therefore a natural tendency – not yet apparent in practice – to bypass the market-makers, thereby weakening both the central market and the concept of a true market price. But if too much pressure for change were applied to the handful of big market-makers who still control the market, they might simply decamp to cheaper premises and continue to do the business under a different name.

And here lies the nub. Under the pressure of atrocious losses, the jobbers cannot be expected to bear the burden of London's future as an international securities centre. But neither can they be allowed to revert to an old-style Little Englanders' club, with new rules – as in the Elwes report – to debar newcomers who do not have the required market share or existing capital base. There is an urgent rescue job to be done, and it seems to lie outside the Stock Exchange's competence.

US anti-trust

The collapse of Minorco's bid for Consolidated Gold Fields says far more about the fickleness of the US legal system than it does about US anti-trust policy. Minorco's parents may be criticised for their unwillingness to be as flexible as the US courts might have wished, hut there are good grounds for believing that if only Minorco had had better luck in the lottery to pick the judge hearing the case, then it could easily be the owner of Gold Fields today.

While the circumstances of its case are unusual, its experience in the US courts is a reminder of their unpredictability, especially in areas of US anti-trust policy. The idea that a bid can be blocked by a lower court even though the US federal authorities have cleared it, underscores the shifting shoals of US competition policy. Ten years ago, when the Carter Administration was far more active in policing takeovers, a vertically integrated deal such as Du Pont's takeover of Conoco, would almost certainly not have been permitted. The last two Republican administrations have been far more permissive, although the number of takeovers being challenged at the Federal level is on the increase.

The relaxation of US competition rules has been one of the factors behind the more than tenfold rise in the value of foreign takeovers of US companies since 1982. However, if Minorco's experience is any guide, it would be preferable if the US authorities became more heavily involved since at least that would guarantee a more consistent interpretation of the rules.

Euroequities

While British companies seem to have given up asking the London stock market for money, the Europeans have been taking up the slack. In the last month or so London has stumped up for everyone from Elf-Aquitaine to Repsol to Pechiney; and judging from the pending demands from Benetton, DAF, Pirelli and Eurodisney, the trend continues. Before the crash the market was jammed with international equity offerings; afterwards their absence was so marked that everyone judged the earlier period to have been a freak. The last two months have proved that wrong: once again, investors seem happy to back European issues, and trade them in the secondary market. The issuers are raising larger sums than would be available at home and are again looking towards international ownership to match increasingly international business.

However, progress towards a truly international equity market is not quite as rapid as all this suggests. The rise in Euroequity issues is the flip side of an even greater rise in total equity issues from European companies, which have been showering paper over their own home markets. In marked contrast to the big international centres, continental European markets have been experiencing a general new issue boom this year – which partly explains why prices have risen less than in London or New York.

Moreover, the composition of the recent offerings is a bit lopsided, heavily weighted towards privatisations rather than the big private companies. This makes the success of some of the issues a bit misleading: if the Government chooses to sell off its industries on the cheap, it is not surprising if investors everywhere want to buy the shares. While Warburg had no trouble in finding happy homes for Repsol, and DAF is already looking like a sell-out, more finely priced private sector issues are struggling a bit. At the time, it doubtless seemed a fine idea for Kredietbank to look overseas for some equity; but the international investors were less keen, and most of the shares went straight back home again.

Investment policy

February is the only month in the last six when the UK equity market has ended lower than it started, and the recent surge has inevitably triggered interest in old adage "sell in May and go away." In much earlier times there was a clear seasonal pattern to the economy and interest rates; May is said to be one of the two strongest months for institutional cash flows and rights issues tend to be less frequent early in the year. Whatever the reasons, James Capel has calculated that since 1980 the FT All-share index has risen by an average 12.9 per cent in the first four months of each year, and by 3.6 per cent and 1.7 per cent respectively in the May-August and September-December periods.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday May 22 1989

INSIDE

Options traders take up the self-rule cry

A cry for more autonomy from the International Stock Exchange has come from the London Traded Options Market. A confidential report by Mr Geoffrey Chamberlain, head of its traded options committee, and which has the backing of senior options traders in London, falls short of calling for a complete break with its parent. But the message to the Stock Exchange Council is clear: if it is to thrive, the options market needs to be controlled by options practitioners and not those whose prime interest in the market is underlying equities. **Page 22**

The networking game

According to management gurus, traditional, hierarchical corporate structures are breaking down and being replaced by "networking" – a pattern in which relationships become less formal, more complex and often less stable. Christopher Lorenz, in the Business Column, analyses the problems this can bring. **Page 42**

Happiness is . . .

The Association of International Bond Dealers was in a satisfied mood at the weekend. Delegates and board members in Vienna for last Friday's general meeting gave an overwhelming endorsement to the board's plans for the future of the AIBD, including the raising of the membership fee to SFr6,000 ($3,450), the principle of the gradual extension of the controversial Trax trade matching system, and the reorganisation of the secretariat along more professional management lines. Andrew Freeman reports. **Page 22**

The ultimate dream comes true

T&S

Some 14 years ago Mr Kevin Threlfall opened his company's first cut-price cigarette kiosk in Wolverhampton market. On Friday he and the company, T&S Stores, were thrust into the limelight when they bought two chains of confectionery, tobacco and newspaper shops from Next in a huge expansionary leap. Said Mr Threlfall: "It is the ultimate dream come true." Andrew Hill examines where T&S will go from here. **Page 26**

Ebullient Bond seeks to retrieve his lucky touch

Chris Sherwell on the Australian entrepreneur's long-awaited move to tackle his corporate setbacks

NEWS OF Mr Alan Bond's corporate troubles over recent months has sounded unremittingly negative as well as uniformly repetitive. At any time, "It's been a bad week for Bond" could have served as an appropriate headline.

Last Friday, in a long-awaited response, the Perth-based brewing, media, property and minerals baron moved to repair the damage – to erase the impression of deterioration in his companies' finances and halt a decline in his corporate image without throwing the whole game away by losing control.

Initial reaction to his plans, which were announced in a speech to the Securities Institute in Sydney and amplified in interviews, was that they stood a chance of working. Shares in the flagship Bond Corporation rose 15 cents to A$1.35, having slumped to a three-year low of A$1 earlier this month.

But questions remain unanswered. Will his proposed sale of Bond Corporation's core brewing business to the 58 per cent-owned Bell Resources win support from Bell Resources' minority shareholders? Why should it if, as many suspect, it is no more than a convenient reshuffling of debt? And can the rump of Bond Corporation survive anyway?

The plan, as one might expect from Mr Bond, is complicated and cleverly devised. The brewing business is to be sold to Bell Resources for A$3.5bn ($2.7bn), comprising the transfer from Bond Corporation to Bell Resources of A$2.3bn in its brewing debt and A$1.2bn in cash from Bell Resources to Bond Corporation.

At the same time, Bell Resources is to be restructured through the dilution of Bond Corporation's holding from 58 per cent to something approaching 40 per cent, possibly through the introduction of a new foreign partner. Bell Resources' existing assets – the lucrative Weeks Petroleum royalty and a share of some Queensland coal interests – will also be sold.

The dilution to below 50 per cent is designed to remove Bond Corporation's share of Bell Resources' overall debt, including the A$2.3bn being transferred, from its balance sheet. Most of the A$1.2bn "cash" element of the transaction will simply dissolve Bond Corporation's existing borrowings from Bell Resources, recently disclosed as A$900m and probably higher.

The move is similar to a restructuring which Mr Bond proposed last year when he first acquired the Bell stable of companies from the entrepreneur Mr Robert Holmes à Court. Then, he hoped to merge not only Bond Corporation with the cash-rich Bell Resources, but also Bond Media, which contains his television interests, with Bell Group, which owns Perth's profitable West Australian daily newspaper.

This earlier plan was frustrated by another entrepreneur, Mr John Spalvins, who controls the Adelaide Steamship conglomerate. He built up a stake of almost 20 per cent in Bell Resources, with the aim of extracting maximum benefit from Mr Bond's proposal. Mr Bond eventually called it off, but Mr Spalvins stayed put. Now the inevitable reckoning has come.

With Bond Corporation unable to vote its Bell Resources shares, Mr Spalvins clearly retains the upper hand in determining the fate of Mr Bond's latest proposal. But if he and other minority shareholders come out against it they face awkward alternatives.

For a start, they would have to push for the recovery of the Bell Resources' loans already made to Bond Corporation, and for the disposal of its loss-making investment in Mr "Tiny" Rowland's Lonrho. Then they would have to await the search for a large long-term investment other than brewing, or press for a straight break-up.

According to Mr Bond, the brewing plan should be supported because it would give Bell Resources the direction and purpose it currently lacks, in the form of a strategic investment in one of the world's largest brewers. Part of a recession-resistant industry, it would generate a regular, solid and predictable cash flow. For investors, it would be a pure brewing play.

One question is whether A$3.5bn is an appropriate value to be put on Mr Bond's brewing business. Whatever the answer, the loss of such an asset still seems to leave Bond Corporation a major beneficiary of the transaction because it makes a large paper profit on the sale, reduces its debt substantially and, importantly, retains a major (perhaps controlling) stake in Bell Resources.

Mr Bond is refusing to spell out the precise financial consequences for Bond Corporation, so the actual impact remains a matter of conjecture. At the very least, he now seems less likely to take it private: it would simply become a company with significant Australian television interests (through Bond Media) and newspaper assets (through Bell Group) and diverse property interests.

That said, Bond Media's future is currently under a cloud because of an inquiry by the Australian Broadcasting Tribunal, which is due to decide soon whether he is a "fit and proper person" to hold his broadcasting licences. Also, it must be assumed that property sales will continue to be necessary because, with the group's major source of cash going to Bell Resources, its debt may stay too high to service.

To be set against these uncertainties about the true state of Bond Corporation is the evidence of the irrepressible Mr Bond's renewed ebullience.

In his Sydney speech and his interviews, he blamed his troubles on Mr Rowland, whose reaction he had underestimated.

He accused banks and institutions of refusing to believe he could make A$3bn-worth of asset sales in nine months and he attacked the local credit rating agency and the local media.

On the other hand, he admitted that his relationship with the collapsed Rothwells finance house was a "total disaster", acknowledged criticism of his heavy asset-buying at the same time as he was making a string of sales and accepted that the group had to regain the confidence of investors and financial markets by doing something about its debt and its image.

Time will now show whether, on May 19 1989, the country's best-known entrepreneur rediscovered his lucky touch, or was forced into a last throw of the dice.


Alan Bond: irrepressible

BOND Corporation International (BCIL), the quoted Hong Kong arm of Mr Alan Bond's empire, is to repatriate to the Perth-based Bond Corporation some of the proceeds of the HK$2.26bn (US$289.7m) from selling earlier this month its half share of the Bond Centre, a 46-storey office development, writes John Elliott.

Mr Bond has decided that this should be done by BCIL declaring a special dividend out of unappropriated profits. This would be paid by the end of next month and would benefit minority shareholders, who own 34 per cent of the company, as well as Mr Bond's Australian master company, which owns the remainder.

Mr Peter Lucas, managing director of BCIL, said a meeting of BCIL's directors had been called to approve the plan on Thursday, when the size of the dividend would be announced.

He added that BCIL was considering buying two properties in Hong Kong, but a lot of work needed to be done before a decision was made.

A deal that challenges German companies' way of life

David Goodhart examines the acquisition of control of Feldmühle Nobel by fellow conglomerate Veba

LAST WEEK'S reappearance of the Flick brothers on West Germany's financial stage, to hand control of conglomerate Feldmühle Nobel to the even bigger conglomerate, Veba, will not open the way to full-blooded contested takeovers in Germany, but it ought to give some underperforming managements something to worry about.

The Flicks, whose dilettante image was only reinforced by an aborted contested bid for Feldmühle last year, now have some grounds for feeling pleased with themselves. Their stealthily acquired 40 per cent stake in Feldmühle was passed on for a profit of about DM150m ($76m) and also realised their long-term ambition of supplanting the current Feldmühle management.

The deal raises important questions about the restructuring of the German and European paper and board industry (half of Feldmühle's sales are in paper), and the progress of Veba, whose apparently successful diversification strategy has created a rare thing in German corporate life – an acquisitive conglomerate.

But it is inevitably the sight, for Germany, of an assertive group of shareholders playing the key role in a corporate restructuring – against the will of an incumbent management – that has caught most attention.

The Flicks' success is the culmination of a personal vendetta against Deutsche Bank which has become entangled with a more public vendetta against what they see as the stultifying old boy network of German managers and bankers who are said to crush shareholder rights and thus a vigorous market in corporate control along Anglo-American lines.

The Flicks, Friedrich Christian and Gert-Rudolf, are grandsons of the famous German industrialist, Friedrich Flick, who created the three companies – Feldmühle (paper), Dynamit Nobel (chemicals and explosives) and Buderus (construction and kitchen equipment) – which now form Feldmühle Nobel.

The Flicks believe that when these companies were sold to the public in 1985 – in Germany's biggest ever flotation – Deutsche Bank pocketed too large a cut and caused the value of the individual companies to be significantly undervalued by packaging them together as an illogical conglomerate.

Having learnt something about finance through playing with their fortune on Wall Street they decided, in 1987, to try to bring US corporate re-structuring to Germany and claim back their inheritance at the same time.

That led to last year's fluffed tender offer for 51 per cent of Feldmühle and the company's subsequent disappearance behind a supposedly protective restriction to 5 per cent of voting rights regardless of how much equity a shareholder owns, a move supported by Deutsche Bank.

The Flicks began picking up shares again at the end of last year with the help of seven supporting buyers – five family members and two friends – and Merrill Lynch (Morgan Stanley has been defending Feldmühle). The secret acquisition of 40 per cent was facilitated by a declaration level per shareholder of 25 per cent in Germany and disguised buying which left even Deutsche Bank in the dark.

According to Mr Nicolaus Weickart, the Flicks' lawyer, they then considered three options: a break up, which Mr Weickart says would have been most profitable, the dropping in of a new management team, or – the one they chose – a forced merger.

Weickart, who has been leading a campaign in Frankfurt against the new wave of interest in "poison pill" protection, says the real significance of the deal is that Feldmühle was not protected by its 5 per cent voting restriction. (Such voting restrictions cannot in any case apply to important corporate decisions like capital raising or liquidation.)

He claimed the Veba deal showed there was no "fortress Germany" against contested bids and said the Flicks would now be establishing a fund to buy into companies "where the managements cannot unlock the financial or industrial value." He added: "There are a lot of unhappy shareholders here."

However, there remain powerful obstacles to contested takeovers in Germany, including the two-tier board system, large stakes held by friendly institutions or controlled by house-banks and the simple hostility of most business institutions to such a system. Also, the 5 per cent voting rule may not always be so ineffective.

One reason it was ineffective in this case is that the agent of restructuring is Veba, a company with highly regarded management and enormous cash flow, some of which will be used to support Feldmühle Nobel's belated but ambitious investment programme for the paper side.

Despite last Friday's public show of friendship between Veba and Feldmühle senior management, Feldmühle's independence will now effectively cease.

Veba may sell off the Buderus group – it lost DM28m last year but is expected to pick up after selling a heavily loss-making kitchen appliances business to Electrolux. The remnants of Dynamit Nobel may also go. Much of its chemical business was sold to Veba two years ago for DM500m – a sum that subsequently looks far too small.

That sale properly established Veba's fourth leg in chemicals to add to its businesses in power generation, oil and trading.

Veba, one of Germany's 10 largest companies which last year reported earnings of DM1.07bn on sales of DM44.37bn, seems to have fought off interest from the US and Sweden for Feldmühle Nobel. The fact that Veba's DM400 a share offer was not as high as some of the foreign offers has suggested to some observers another typical German stitch-up, with Deutsche Bank (Veba's bankers) calling the tune and the Flicks acting as unwitting puppets.

That is probably too cynical. Veba has shown in its proposal to abandon the Wackersdorf nuclear reprocessing plant in favour of a deal with France that it is not shy of upsetting domestic opinion. Whether lending its authority to the Flicks' freelance restructuring will help change the nature of corporate control in Germany – and thus win Veba many more enemies – remains, inevitably, to be seen.

Economics Notebook

Lawson's record under scrutiny

THE Prime Minister's weekend telephone call to Mr Nigel Lawson in Spain may signal a new outbreak of peace between numbers 10 and 11 Downing Street.

But Mrs Thatcher's observations on the causes of Britain's current 8 per cent annual inflation rate are symptomatic of increasingly critical scrutiny of the Chancellor's record.

In her interview with the BBC World Service on Friday, Mrs Thatcher attributed the rise in inflation directly to the policy, abandoned a year ago, of keeping the pound in line with the D-Mark. Although she has since said otherwise, her remarks suggested that she held Mr Lawson responsible.

Over the past week, two notable economists – Professor Alan Budd of Barclays Bank and Mr Tim Congdon, who now acts as economic adviser to discount house Gerrard and National – have put Mr Lawson's nearly six years as Chancellor under the microscope. Unlike Mrs Thatcher, however, they trace the present troubles back to the middle of the 1980s*.

Both economists agree that mistakes were made. But Prof Budd concludes that at each point there were plausible explanations for the Government's actions. Mr Congdon, although highly critical of government policy, believes that "honest errors in analysis and judgment" by policy-makers largely explain Britain's present economic difficulties.

For Mr Congdon, the turning point came some time in 1984 or 1985, when the Chancellor changed the emphasis of economic management from the reduction of inflation to the promotion of economic growth and from monetary control to "a rather ill-defined pragmatism."

In line with his monetarist beliefs, Mr Congdon considers that a key mistake of the Government was to end the structural integrity of its monetary policy of the early 1980s.

That was based on four elements: targets expressed in terms of broad money (sterling M3), floating exchange rates, co-ordination of fiscal and monetary policy and an "over-funding" policy in which the Government varied its sales of gilt-edged stock to the public to offset changes in bank lending to the private sector and government borrowing.

Prof Budd also diagnoses errors in monetary policy with events in 1986 playing a crucial role. That was when the Government failed to respond to sterling M3 bursting through the top of its range by tightening policy and missed the chance to convert the fall in the oil price into a permanent reduction of inflation.

But, as Prof Budd points out, the oil price gave misleading signals. Lower oil prices gave a mistaken impression of success in controlling inflation. They provided a rationale for allowing the exchange rate to fall. They also had the immediate effect of depressing the world economy and the Government was reluctant to reduce demand further.

Both men agree that the errors of the mid-1980s were compounded by the decision to tie sterling to the D-Mark last year.

But here too Prof Budd finds extenuating circumstances. The Treasury may have thought that tying sterling to the D-Mark would somehow have helped Britain to move closer to Germany's low inflation rate. The problem, with hindsight, was that the sterling-D-Mark rate was too low.

Prof Budd argues that "after 1985 the Government was always able to find reasons for taking a soft rather than a tough line on policy when there were possible signs of danger." But Governments do not operate economic policy in a vacuum: Britain was still a country of high unemployment in 1986 and Mr Lawson's policies probably won the following year's general election for Mrs Thatcher.

If Prof Budd is right that trouble was brewing when the oil price fell in 1986, perhaps the Government's biggest mistake was its failure to ask why it hoped to keep control over inflation with a lax monetary policy when a quick glance across the English Channel would have revealed that Britain's European neighbours were applying generally tighter policies at that time.

Bundesbank worries

A glance across the Channel now shows that the Louvre Accord has presented West Germany with an inflation problem.

In a recent speech, Mr Leonhard Gleske, the Bundesbank director responsible for its foreign policy, described how in an era of uncontrolled capital movements relatively fixed exchange rates have given high inflation, high interest rate countries such as the US hard currency status.

West Germany, which suffered a damaging jolt to investor confidence because of its now abandoned policy of levying a withholding tax on D-Mark investments, has become a weak currency country despite its huge current account surplus. The result is higher inflation through rising imported goods prices.

Peter Norman

**Monetarism Lost* by Tim Congdon, Centre for Policy Studies, 8 Wilfred Street, London SW1E 6PL. £6.50.

Barclays Economic Review, May 1989, Economics Dept, Barclays House, 1 Wimborne Road, Poole, Dorset BH15 2BB.

THIS WEEK

UK TRADE and retail sales figures will this week provide key pointers to future trends in the British economy, possibly providing clues about the next move in interest rates.

Recent months' current account deficits have been more or less in line with analysts' expectations, but financial markets remain wary of a bad set of figures on Thursday. A worse-than-expected deficit in April could undermine sterling, increasing pressure for a rise in base rates.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a current account deficit of £1.65bn, compared with £1.2bn in March.

Retail sales figures for April on Wednesday will be analysed for further evidence of the slowdown in consumer spending hinted at in previous months. The consensus is for a rise of 0.2 per cent after no change in March.

The preliminary estimate of gross domestic product in the first three months of the year, showing the extent to which the Government's high interest rate strategy is beginning to slow the economy, is published on Friday.

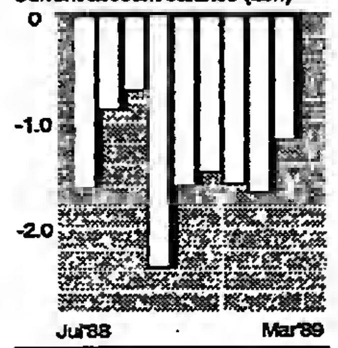
US financial markets are likely to focus on the consumer sector, with April's figures for personal incomes and consumption released on Friday. Rises of 0.6 per cent and 0.7 per cent respectively are expected.

In Japan, the consumer price index for April is published on Friday. This will show the impact of the introduction of 3 per cent VAT last month, and could be the trigger for the Bank of Japan to raise its 2.5 per cent discount rate.

However, the relatively low rise of wholesale prices last month, 2.5 per cent year on year, has already signalled that the impact of the sales tax introduction has not been as dire as expected, and the CPI growth rate is expected to be a minimal 1.5 per cent.

Also on Friday, industrial production figures for April are likely to be down slightly after a strong performance in March.

UK trade deficit



Figures for West German consumer prices in May are expected some time this week. They will possibly provide a focus for fears of accelerating inflation.

In April, the year-on-year rate reached 3 per cent, the highest for five years.

Other events and statistics this week (with MMS International consensus in brackets) include:

Today: UK, cyclical indicators for April.

Tomorrow: UK, building society monthly figures for April (£4bn net new commitments). Capital expenditure and manufacturers' and distributors' stocks in first quarter of 1989. Japan, March household survey.

Wednesday: Mr Robin Leigh-Pemberton, Governor of the Bank of England, gives evidence to House of Commons Treasury and Civil Service select committee. Mr Nigel Lawson addresses Conservative women's conference. UK construction, new orders in March. US, 10-day auto sales. Two-year Treasury note auction.

Thursday: US, gross national product in first quarter (up 5.3 per cent). Five-year note auction.

AIBD

Mood of satisfaction after Vienna talks

DELEGATES and board members leaving Vienna after last Friday's general meeting of the Association of International Bond Dealers were in satisfied mood.

The meeting gave an overwhelming endorsement to the board's plans for the future of the AIBD, including the raising of the membership fee to SFr6,000, the principle of the gradual extension of the controversial Trax trade matching system, and the reorganisation of the secretariat along more professional management lines.

It was announced during the conference that Dr Hans Peter Frick has been appointed secretary general and chief executive officer following the retirement of Mr John Wolters.

In addition, the meeting achieved the election of new board members and the appointment by the board of Mr Jan Ekman, vice chairman of Svenska Handelsbanken, as the new AIBD chairman. Thus, the AIBD that left Vienna was different both in its revivified sense of purpose and in its key personnel.

For a few minutes of Friday's meeting, board members were experiencing the same discomfort they enjoyed in Dallas last year when the proposal to raise the membership fee was roundly rejected amid a welter of criticism and mutual recrimination.

Friday's delegates were offered an account of the way in which the higher fee would be used to implement a development strategy designed to professionalise the AIBD.

For some, however, the account was too detailed and was seen as an attempt to disguise the fact that the increase was unnecessary and would be used to subsidise the development of Trax.

The first interventions from the floor of the meeting questioned the need for the increase and were accompanied by a murmur of concern.

Only after two assertive speeches in favour of the fee increase did the mood swing in the board's direction. The proposal was approved by a substantial majority, and with it the board's plans for the AIBD were intact.

Nevertheless, three outstanding matters remain for the AIBD's attention. The first is the need to reach a formal agreement with EuroClear and Cedel, the clearing organisations, about a joint communications network with the Trax system.

Such a network would allow AIBD members more efficient trade data transmission and would also prove the AIBD board's assertion that it has no intention to develop the association as a clearing house.

A meeting by the three parties last Friday was said to have been encouraging. Privately, representatives of each group said they would be happy in principle with shared ownership of a common network.

The second concerns the extension of the Trax system. At present, Trax is used by around 90 per cent of the AIBD's UK members for whom it is compulsory.

The remaining 10 per cent of UK members are said to be close to becoming live users of the system, and the Trax committee is considering the introduction of penalties for any members which prove unco-operative.

However, there is no set timetable for the extension of Trax, and there remains considerable resistance to the system, particularly among smaller European AIBD members.

In addition, some of the existing users which can appreciate the risk management benefits of the system, say it is too expensive and are advocating volume discounts for heavy users.

The third and largest matter lies almost entirely at the feet of the newly enhanced AIBD secretariat which now possesses executive responsibility. In Vienna, the AIBD board outlined to delegates an ambitious development programme.

The secretariat under Dr Frick will have to demonstrate that it has the capability to carry the programme through. Otherwise, the peace treaty hammered out last week in Vienna will come to be seen as merely the prelude to a conflict more fundamental than that over the membership fee. That is the battle to control the international capital markets.

Andrew Freeman

TRADED OPTIONS

London market cries for freedom

A CRY for more autonomy from the dead hand of the International Stock Exchange has come from the London Traded Options Market. A confidential report by Mr Geoffrey Chamberlain, head of its traded options committee, and which has the backing of senior options traders in London, utters its plea *sotto voce* and falls short of calling for a complete break with its parent.

But the message of the report to the Stock Exchange Council is clear: if it is to thrive, the options market needs to be controlled by options practitioners and not by those whose prime interest in the market is underlying equities.

LTOM, it says, is "a different market from others at the ISE. It is at a different stage of its evolution. . . Its products and methods of trading are different. Yet within the current structure this specialist market is subject to non-specialist rules and control techniques. Different markets require a flexibility of approach and understanding. Conformity for conformity's sake ensures stagnation and competitive slippage."

That last point is underlined by a section which compares LTOM with to other options markets in Europe. "However performance is measured, while LTOM has improved its performance since 1985, it has failed over 11 years to match the performance shown by other exchanges or indeed to capitalise on its underlying market and time zone potential."

The report notes the market is finalising a number of major strategic initiatives "which will have a significant impact on the current structure of the market."

These include its co-operative effort with the London International Financial Futures Exchange (Liffe), which may result in a common trading floor and administrative offices, common staff in certain areas, joint product initiatives, common clearing and systems.

They also include co-operation with European exchanges through Ecofex and the development of co-operative arrangements with non-European exchanges.

The main conclusions of the report are:

- LTOM remains part of the stock exchange, which remains the ultimate authority in areas affecting the Recognised Investment Exchange status of the ISE and in the area of financial exposure.
- *Establish LTOM Ltd* as the authority for the market, whose board should be elected from options practitioners and should have full control of their market. Delegate authority and resources to a managing director to carry out the policies.
- Encourage member commitment through the sale of seats.

A previous report on the issue to the Stock Exchange in January 1985 was buried in the excitement over Big Bang. Recommending much more independence for LTOM, it nevertheless rejected the setting up of an independent market or a merger with the Liffe. This was for three reasons: the resulting disruption, the inability of the options market to support itself and the loss of benefits arising from close association with the ISE.

Mr Chamberlain concludes that only the last of these three reasons has any validity, but there are still benefits to a link provided it is radically altered, despite the "periodic and more vociferous 'cry for freedom' from options members."

In some areas, the current options market's policy "is diametrically opposed to the other ISE markets."

However, LTOM – which has accumulated a surplus of £6.6m since its inception, including 1988-89's estimated profits of £500,000 – can benefit from the ISE's broad membership, through its ability to act as a banker, its credibility, the tax concessions accorded to market makers, and the potential benefits of scale in computer operations and communications.

The ISE, it suggests, gains from, among other things, the increased volumes that traded options generate in equities. There are also benefits from the sales of option price information, the risk management facilities provided to equity market makers and the continuing profit contribution made by traded options, even after paying £3.5m for stock exchange services in 1988-89.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	3,458.9	0.0	159.0	9,728.4
Prev	3,237.0	0.0	0.0	8,274.2
Other	1,230.7	6.3	50.2	2,742.5
Prev	844.3	0.0	491.4	3,466.4
Secondary Market				
US$	20,850.3	1,117.4	5,416.9	7,110.4
Prev	13,873.5	775.5	4,577.3	5,939.9
Other	13,525.6	809.1	5,572.3	26,845.2
Prev	13,272.1	934.6	5,360.0	20,459.6
	Cedel	Euroclear	Total	
US$	10,834.9	37,006.4	47,841.3	
Prev	9,285.6	27,391.8	36,677.4	
Other	21,935.9	28,846.0	50,781.9	
Prev	20,117.4	24,711.0	44,828.4	

Week to May 18, 1989 Source: AIBD

INTERNATIONAL LOANS

Two years make big difference for WPP

A COUPLE of years can make quite a difference. When in 1987 WPP, the UK advertising and marketing group, attempted to finance its bid for JWT, the New York advertising company, it met a frosty reception from both the stock market and the international loans market.

Its rights issue proved a flop and Citicorp and Midland Montagu had a tough time syndicating a $260m seven-year term loan carrying a margin of 2¼ percentage points over London interbank offered rates.

Last week, to finance WPP's agreed $864m offer for the Ogilvy Group, Midland and Citibank have agreed to underwrite facilities totalling $910m.

On Friday, about 10 banks were invited into the transaction. (Montagu also provided $355m in an 84-day facility to be secured on the proceeds of the planned rights issue.)

This initial facility, carrying a finer margin of 1½ points, will provide $630m to finance the offer and refinance WPP's existing loans, and a further $280m for working capital. This will be repaid in 11 months, at which point the two banks have agreed to provide a seven-year term loan, bearing a 1½ point margin, and a three-year working capital facility being a 1 point margin. Both margins may be lowered if the enlarged group performs well.

Given WPP's record – it quickly refinanced the earlier deal through S.G. Warburg – some banks appear to expect a fairly rapid refinancing of the new facilities.

Bankers now expect that despite the finer margins, the deal will probably succeed for two main reasons. First WPP, run by Mr Martin Sorrell, has now firmly established its record with the success of the JWT takeover, although the benefits that WPP can bring to Ogilvy are less clear than with hindsight it could bring to the poorly managed JWT.

Second, despite the promise of the early part of the year, the loans market has been relatively slow and banks are looking at a shortage of assets as the half-year approaches.

It was not long ago that lending unsecured funds of this magnitude at interest margins so narrow to a company with such fickle prime assets would have been impossible.

Stephen Fidler

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Onward Kashiyama‡◆	200	1993	4	4⅛	100	Nomura Int.	4.250
Kenwood Corp.‡◆	150	1994	5	4⅞	100	Nomura Int.	4.875
Kirin Brewery Co.‡◆	350	1993	4	4	100	Yamaichi Int. (Eur)	4.000
Nissho Iwai American◆	100	1993	4	9⅞	101½	Yamaichi Int. (Eur)	9.408
Showa Aluminium‡	150	1994	5	(5¼)	100	Nomura Int.	★
Nippondenso Co.‡	1bn	1993	4	(4⅜)	100	Nomura Int.	★
IADB(k)◆	300	2009	20	8⅞	99.45	Salomon Brothers	8.935
Soc. Gen.Acceptance(l)◆	40	1990	1	13¼	101⅞	Societe Generale	11.866
CANADIAN DOLLARS							
City of Montreal◆	100	1994	5	10⅜	101½	Societe Generale	10.351
AUSTRALIAN DOLLARS							
IBM Australia Credit◆	75	1992	3	15½	101⅞	Salomon Brothers	14.688
Mitsubishi Tst A'tralia◆	60	1990	1	18¼	101.90	WestLB	16.045
Toronto-Dom.Bk Gr.Cay.◆	*50*	*1990*	*1*	*16*	*101.95*	*Fay, Richwhite*	15.743
D-MARKS							
WestLB Fin.Neth.(b)◆	150	1994	5	8½	100¾	WestLB	8.311
Ireland(e)◆	500	1999	10	7¼	100¼	Commerzbank	7.214
SWISS FRANCS							
Nittan Valve Co.(n)★★‡◆	45	1994	-	½	100	Bqe Paribas (Suisse)	0.500
Noritz Group★★‡	60	1994	-	1⅛	100	B.della Sviz.Italiana	1.125
Sonton Food Ind.(i)★★§	40	1994	-	(½)	100	Nomura Bank (Switz)	★
STERLING							
Ford Credit Funding◆	60	1992	3	12¼	102	Hambros Bank	11.426
Deutsche Bank Fin.(a)◆	50	1994	4⅔	11	100⅛	Baring Brothers	10.857
EIB(g)◆	50	1997	7⅔	10	96⅛	UBS Phillips & Drew	10.694
Coats Viyella Fin.(h)§◆	98	2004	15	7¼	100	CSFB	7.250

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
ECUs							
Austria◆	100	1993	4	8⅞	101⅝	CSFB	8.380
Credit Local de France◆	100	1995	6.2	9	101⅝	CCF	8.636
Hydro-Quebec◆	125	1999	10	9¼	102	Merrill Lynch	8.939
FRENCH FRANCS							
Casino Group(m)§◆	600	1999	9½	8	100	Lazard Freres et Cie	6.000
LIRE							
IMI Bank Int.◆	100bn	1992	3	12⅝	101¼	Banco di Roma	12.104
PESETAS							
World Bank◆	10bn	1994	5	12⅜	101⅜	J.P. Morgan Espana	11.994
YEN							
Credit Lyonnais(c)◆	35bn	1996	7	(c)	101⅞	Nomura Int.	-
PKbanken(d)◆	5bn	1993	4	8	101⅝	Toyo Trust Int.	7.515
Sparekassen SDS(f)◆	3.4bn	1993	4¼	(f)	101⅝	Mitsubishi Fin. Int.	-
CCF◆	4bn	1993	4	(j)	(j)	Daiwa Europe	-

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ◆Final terms. a) Issue price 100⅛ plus accrued interest. Fungible with £75m bond issued in Jan. 1989. b) Borrower option to repay in US$ at strike price of DM1.73. c) Coupon 6½% first three years, remainder linked to Nikkei stock index. d) Redemption linked to Nikkei stock index. Put and call after three years. e) Investor option to receive interest and principal in either D-Mark or Irish punts. Punt rate to be fixed two days before payment date. f) Redemption linked to Nikkei stock index. Coupon 5% first three months, 6% thereafter. g) Fungible from July 24, when total will be £300m. Original £100m bond issued Oct. 1988. h) Convertible preference shares. Put June 1994 at 128½ to yield 11.49% semi-annually. Issuer may grant further two put options. i) Indicated put to yield 2.388%. j) Coupon and issue price not disclosed. Redemption linked to Nikkei stock index. May be increased to Y8bn. k) Launched in US domestic market. l) Redemption linked to gold price. m) Convertible throughout life of issue. In addition there is 1 warrant per bond. 2 warrants can be exercised into 1 share at FFr250 per share before December 1992. FFr1.4bn launched on domestic market. n) Yield to put 2.078%. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

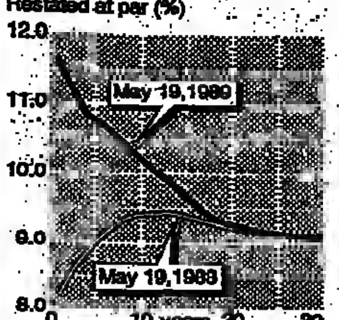
UK GILTS

Cool response to rising retail prices

IT IS a testimony of sorts to the gilt-edged market's cool and even temper that government stock prices barely reacted to the announcement of a rise in Britain's annual rate of retail price inflation to 8 per cent in April. This is all the more remarkable given the consensus among economists in the market was for a fall in the annual rate from its 7.9 per cent level in March to around 7.7 per cent.

It is more than possible that the market knows more than the sum of the collective wisdom of its advisers. If it does, it is not telling. From yields in the short-term money market to the longest of long-dated gilts, the message is the same: the next move in base rate — some time off, to be sure — is down from the current level of 13 per cent.

The message from Friday's figures is that the Chancellor will have to dump his Budget forecast for end-of-year inflation. (Will this summer be a repeat of last summer when just about every Budget forecast was revised?) Mr Lawson's forecast for the retail prices index in the fourth quarter of this year is 5½ per cent. He will almost certainly have to adjust it upwards by at least 1 percentage point, possibly more.



In April, the UK inflation picture started off by being 0.4 per cent better because the Chancellor did not raise excise duties. In other words, it would have been 8.4 per cent in April had he revalorised duties. The rate is likely to peak at around 8.5 per cent before it falls back.

Inflationary pressures were seen intensifying across the board in April. There were the administered price rises: local authority rents and rates, electricity and gas. What is surprising is that alcoholic drink prices rose 0.5 per cent and more, and clothing and footwear prices rose nearly 2 per cent in the month. With the exception of tobacco, every sub-category of the RPI rose in April. Given the downturn in retail sales, retailers have possibly gone for the maintenance of profits rather than volumes.

The underlying rate of inflation, which Mr Lawson has defined as the retail prices index excluding mortgage interest payments, was 5.9 per cent in April. It has risen steadily since the first quarter of 1988 when it was 3.7 per cent. Although the all-items retail prices index will begin a downward trend after August, the inflation in the pipeline could keep the underlying rate well above 8 per cent into the new year.

The best explanation for inflation's stickiness seems to be the one offered by economists at Goldman Sachs. They say the tendency in Britain is for inflation to keep rising after a boom as the backwash caused by a tight labour market continues to fuel price rises.

The omens on the earnings front are not good. The latest report from Income Data Services shows that of the 44 pay deals struck in April, nearly 60 per cent were awarded between 7 and 7.9 per cent; 20 per cent were 8 per cent and more.

With inflation set on a rising profile at worst, and not falling particularly quickly at best, the conditions are brewing for a particularly hard fought autumn pay round. The risks are all on the upside and the consequences of that could be the institutionalisatioo of much higher underlying rates of wage inflation at a time of unambiguous economic slowdown.

This is all based, of course, on a fairly benign outlook for sterling. The pound has sagged dramatically against the resurgent dollar recently, although it has held up well against the D-Mark. The problem is that the pound is strong and weak in the wrong places. The UK is importing inflation via the dollar and suffering a competitive disadvantage *vis à vis* the D-Mark.

Little wonder that the Bank of England is none too pleased with the inability of the Group of Seven leading industrial countries to hold the line on the dollar. Although the Bank, along with the Treasury, believes 13 per cent base rates are enough to cool the domestic economy, a sharp fall in sterling seems certain to occasion a rise in rates to 14 per cent.

Simon Holberton

US MONEY AND CREDIT

Treasuries don rose-tinted glasses

CLEARLY encouraging or just ambiguously so, the Treasury market liked every bit of news it received last week. Everything looks rosy when the dollar even has the indomitable Bundesbank running scared.

Plainly the West German ceotral bank decided oot to raise its Lombard rate last week because it did oot want to be seen to be responding retroactively to pressures in financial markets and particularly because it did not want its rate rise to sink ioto another black hole of useless open market intervention.

Given the dollar's current ability to withstand billions of dollars worth of co-ordinated central bank intervention, perhaps it is just as well for Germany to wait until the Bank of Japan is ready to raise the discount rate (and perhaps until the US Federal Reserve is ready to ease rates) and so attack the dollar in a concerted interest rate move.

Interpretations of the dollar's current strength, the key factor behind the fall in long-dated bond yields to their lowest level so far this year, have shifted.

Its rally had been attributed almost entirely to expectations that US interest rates would continue to rise and so build on the significant interest rate advantage enjoyed by the US currency. Despite last week's fall in US bond yields, nobody expects an early easing in US Federal Reserve monetary policy so the dollar continues to have the best of the interest rate argument.

It now has something more, the clearest sign of which was the surge in the Dow Jones Industrial Average last Friday to above 2,500 for the first time since the October 1987 crash.

There has beeo talk for weeks of a significant shift of attitude among overseas investors towards dollar-denominated assets: a rising dollar reinforces that shift.

There is a list of reasons why the US is soddenly deemed a more attractive home for investment funds. There is a perception that there will be no recession but that the US economy is headed for a soft landing with lower interest rates and controlled inflation.

There is also a rather jaded view overseas of their own domestic economic conditions with inflation perceived not to be under control in ooo-US industrialised nations such as Japan, West Germany and Britain.

One has to ask the question whether announcements such as the one by Merrill Lynch last Friday that it was cutting the cash component of its model portfolio to zero and becoming fully invested in stocks and bonds is too late.

Drexel Burnham Lambert cites three reasons for not jumping on the bullish stocks bandwagoo — Fed complacency, the fact that there is little room for further rises in consensus profit estimates and Drexel's forecast for a recession in 1990.

The first of these should be food for thought for the bond market. Ms Abby Joseph Cohen and Mr Burton Siegel, both of Drexel, note the apparent complacency of the Fed: "It is the Fed's job to be nervous, at least in public. The self-congratulatory commeots that have beeo made by several members of the FOMC are highly unusual. . . We fear that the Fed's complacency is spectacularly premature."

They note that inflationary pressures worldwide are rising not falling, with capacity usage and labour market tightness still problems whatever the markets' positive readings of April's PPI and CPI (which was still the largest monthly jump since January 1987).

That warning duly noted, there was some good news last week for bonds and stocks. Wedoesday's trade figures suggested that the Fed has managed to shepherd in a deceleration in growth in the right areas of the economy.

The manufacturing sector is still exporting well as shown in the 7.4 per cent jump in March exports. However, Salomon Brothers notes that real non-oil imports fell by an estimated 3 per cent in the first quarter, suggesting a slowdown in US consumer demand.

Views on inflatioo continue to vary widely but the bond market reacted positively to the fact that the April CPI rose by only 0.2 per cent taking out food and energy, suggesting that inflation may be moderating apart from the recent jump in gasoline prices.

Added to that was Friday's unexpected news of a $41.45bo budget surplus in April. When there is good news on governmeot finances, something has truly changed.

Dooaldsoo, Lufkin & Jeorette points out some risks to current confidence in the bond market such as the obvious risk of some short-run data temporarily signifying greater streogth io the ecooomy or more intense inflationary pressures. It also worries somewhat about wage pressures, particularly in the service sector of the economy.

For the time being, however, economists and their clients are as worried about a melt-up of bullisb seotiment (as opposed to the October 1987 meltdown) and money managers are worried that, if they do not get oo to the buying bandwagon, they will continue to underperform the main stock indices and the price gains in the bond market.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.63	9.57	9.81	9.89	6.27
Three-month Treasury bills	8.63	8.47	8.79	9.05	5.60
Six-month Treasury bills	8.85	8.65	8.77	9.30	5.74
Three-month prime CDs	9.55	9.37	9.95	10.12	6.77
30-day Commercial Paper	9.45	9.56	9.81	9.81	6.65
90-day Commercial Paper	9.33	9.43	9.82	9.82	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	103¾	+⅜	8.72	8.79	9.37
20-year Treasury	105⅛	+1⅞	8.72	8.80	9.26
30-year Treasury	101⅞	+1⅛	8.70	8.83	9.10

Source: Salomon Bros (estimates).

Money supply: In the week ended May 8, M1 fell $8.7bn to $772.9bn.

NRI TOKYO BOND INDEX

December 1983 = 100	18/5/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	148.14	5.06	149.14	148.29	147.38
Government Bonds	148.41	4.86	148.48	148.64	148.63
Municipal Bonds	149.96	5.29	149.98	150.92	148.92
Govt.-guaranteed Bonds	150.98	5.34	150.99	151.90	149.92
Bank Debentures	141.87	5.04	141.70	141.59	140.58
Corporate Bonds	150.26	5.44	150.27	148.93	146.37
Yen-denom. Foreign Bonds	154.10	6.19	153.97	152.83	149.73
Government 10-year†	5.06	—	5.04	4.87	4.86

† Estimated par yield

Source: Nomura Research Institute

Paribas in Swiss deal

By William Dullforce in Geneva

BANQUE PARIBAS (Suisse) is taking over Banque Louis-Dreyfus en Suisse under an agreement with Banque Bruxelles Lambert (BBL) of Belgium. The terms of the agreement were not released.

Banque Louis-Dreyfus en Suisse, established in Zurich in 1972, belonged until January to Banque Louis-Dreyfus, Paris, which was in turn controlled half by the Louis Dreyfus group and half by BBL.

In January BBL bought out its partner in the Paris bank in exchange for a 2 per cent stake in its own share capital and an unspecified cash payment.

BBL said that by acquiring the Paris bank it intended to strengthen its position in France before the advent of the European Community's single market in 1993, but that it would look for a buyer for the Zurich bank.

Louis-Dreyfus en Suisse, which concentrates on private banking, has share capital of SFr25m and showed assets of SFr477m ($271m) at the end of 1988. The name will be changed to Bank Paribas (Zurich).

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS

	Issued	Bid price	Chg on week	Yield
AHFC O/S FIN. 11¾ 94	100	101	+⅛	11.43
ALBERTA PROVINCE 7⅞ 91	750	95¼	+⅛	9.67
QUEBEC PROV 12 98	150	103¾	+⅛	10.38
QUEENSLAND GOVT 11⅝ 89	100	100⅝	0	10.38
RALSTON PURINA 11⅞ 95	150	105⅝	−⅛	10.48
REYNOLDS R.J. 10⅝ 93	100	94⅞	+⅛	11.84
TEXACO CAPITAL 11⅛ 94	500	107½	+1⅛	−1.43
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. Chg. on week = Change over price a week earlier.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.

CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem — exercise premium over current share price. Bond warrant ex yld — exercise yield at current warrant price. Closing prices on MAY 19

Nippon Shinpan advances on credit card growth

By Robert Thomson in Tokyo

NIPPON SHINPAN, Japan's largest consumer credit company, showed an 11.8 per cent increase in profit to Y26.46bn ($197.1m) for the year to March after the value of credit sales handled in the year rose 23.5 per cent.

Growth was particularly strong, at 32.5 per cent, in credit cards, which have become popular in Japan among young workers, and so the company has expanded that division. Two years ago, the company established tie-ups with Visa International and Mastercard International, and analysts expect a 28 per cent increase in the number of cards issued this year.

The financing division reported a sales increase of 50.7 per cent, and the property development division reported a 61.2 per cent lift, while total sales rose 7 per cent to Y260.2bn. The company expectes a pre-tax profit this year of Y27.5bn on sales of Y280bn.

Orient Finance, the second largest in the consumer credit industry but generally the most profitable, reported a 9.4 per cent increase in annual pre-tax profit to Y33.04bn after sales rose from Y328.2bn to Y331.6bn.

The company, which is active in car financing and credit cards, has become more selective about lending as the demand for credit continues to increase significantly among Japanese.

Other companies in the group are involved in personnel services and property, including construction projects outside Japan. The company expects that the value of financing will rise 10 per cent this year to Y4,500bn.

Rhône-Poulenc ahead by 30%

By Peter Marsh

RHONE-POULENC, France's biggest chemical and pharmaceuticals company, has unveiled a 30 per cent increase in operating profits for the first three months of 1989, confirming the good conditions for many of Western Europe's chemicals businesses.

The state-owned company said net operating profits were FFr2.52bn ($392m) compared with FFr1.94bn a year before while consolidated sales rose to FFr18.6bn, a gain of of 12.4 per cent. Net earnings per share were FFr25.15, against FFr20.83 a year before.

Rhône-Poulenc has in recent years been stepping up its international operations, largely through acquiring industrial-chemical and agri-chemical groups, particularly in the US.

It is also ploughing more money into pharmaceuticals research and development in a bid to boost its position in healthcare.

Higher traffic lifts Singapore Airlines

SINGAPORE AIRLINES, the island's flag carrier, showed record net profit of S$985.3m (US$303m) in the year to March, up 63.5 per cent because of higher traffic, improved yield and relatively low fuel prices, Reuter reports from Singapore.

Group revenue rose 14 per cent to S$4.57bn and expenditure 4.1 per cent to S$3.57bn. The airline expects about 10 per cent growth in passenger and freight traffic in the current year, lower than the 12 per cent achieved in 1988-89.

SIA is adding flights to Japan and Australia and plans more freight capacity and services on European routes.

Pre-tax profit also showed a similar 63.6 per cent rise to S$1.09bn. The dividend of 22.5 cents a share, up from 15 cents, is being paid from net earnings of 159.0 cents compared with 97.3 cents.

Puzzle over Monaco TV

By Alan Friedman in Milan

THE MYSTERY of who has purchased Telemontecarlo, the Monaco-based private television network, took a new turn at the weekend with reports that Mr Giancarlo Parretti, the Italian movie entrepreneur, has agreed to pay US$228m to Rede Globo, the Brazilian proprietor of the station.

Mr Parretti was quoted in the Italian press claiming that he and a group of partners in various countries had closed the deal. For a week now there has been uncertainty as to the ownership of Telemontecarlo which has drawn the attention of several major Italian entrepreneurs including the Benedetti and Ferruzzi groups.

It is known Rede Globo is seeking more than $200m for the loss-making station.

Mitel returns to profit

By Robert Gibbens in Montreal

MITEL, the Ottawa-based telecommunications equipment maker controlled by British Telecom, has returned to profitability for the first time since 1983.

For the year to March, Mitel reports operating net profit of C$200,000 (US$167,850) against a loss of C$32.6m a year earlier, on revenue of $432m compared with $419m. The figures are before preferred dividends.

Special gains raised Mitel's final earnings to $22.2m, or 21 cents a share, against a loss of $24.3m, or 38 cents a share a year earlier. Mitel has shifted to large digital private exchange equipment.

Cap Gemini Sogeti holds its lead in Europe

By Alan Cane

CAP GEMINI Sogeti reinforced its position as Europe's leading computing services group in 1988 with revenues of FFr5.8bn ($906.2m), up 39.3 per cent.

The results included a full year's contribution from Sesa of France, which CGS acquired at the beginning of 1988. Without the Sesa contribution, the increase in turnover would have been 23.7 per cent.

The board of directors note, however, that even without the Sesa contribution, 1988 "was still an outstanding year for CGS because in each of the three geographic areas in which it operates – the US, France, and the other countries of Europe – internal growth was considerably greater than the growth in each of these respective marketplaces."

Net profit was FFr402m, an increase of 43.6 per cent over the previous year, representing 6.9 per cent of revenue, which the company says was the largest percentage achieved by the group since its creation in 1975 and more than double that of 1986.

CGS is a systems integrator, a computing services company which puts the most appropriate computer hardware and software together to solve its customers' problems. It does not sell packaged software, nor operate customers' computers on their behalf.

The demand for systems integration expertise in Europe and the US explains part of CGS's success but it has also been pursuing an aggressive policy of acquisitions which has resulted in its posting 1988 revennes more than twice as large as its nearest European competitor, the Anglo-French Sema group.

CGS owns just over 22 per cent of Sema and has made no secret of its wish to add the company to its list of acquisitions which in 1988 included Data Logic of Sweden, Hiekkamaki in Finland, and the Danish AD&D and Sofeon. A mutual equity investment between CGS and Yolmac, the Dntch computing services company, was also concluded last year.

Total fails to halt Saga stake sale

By Karen Fossli in Oslo

TOTAL MARINE NORSK, the Norwegian unit of Paris-based oil company Total-CFP, has failed in a Norwegian court to stop Aker, the big Norwegian industrial group, from disposing of its 20 per cent stake in Saga Petroleum, Norway's largest independent oil company.

Aker last November agreed to sell its 20 per cent Saga stake to Total for NKr640m ($94.1) as part of a deal which would have boosted Total's shareholding to 35 per cent in the Norwegian oil company. This would have effectively put Saga in the hands of foreign shareholders.

The Volvo motor vehicle company of Sweden already holds a 20 per cent stake in Saga.

The deal, which was meant to be good until December 1989, founded on the refusal by Saga's board to change the company's by-laws to allow a majority foreign shareholding in the company.

Because of this, Aker's 20 per cent stake in Saga remained tied up in the Total agreement preventing Aker from disposing of the shares elsewhere.

Mr Karl Glad, Aker's president, in April announced plans to pull out of the agreement to free the group's 20 per cent stake in Saga.

Aker said that it was clear that the sale, part of a complex deal opposed by Saga's board and most parties in the Storting (Norway's parliament), could not be carried out. The company had asked Total, without success, to be released from the agreement.

Total, angered by Aker's move, turned the matter over to a Norwegian probate court, which has now ruled that Aker is free to dispose of the Saga shares as it likes.

Total also has an agreement with Den norske Creditbank (DnC), one of Norway's top banks, in which DnC was to sell Total 10 per cent of Saga. Together, the two purchase options are worth NKr960m.

The court's decision represents something of a blow to Total, which has for some years been seeking to upgrade its status to a key player in the exploitation of oil and gas reserves on Norway's continental shelf.

Norway is Europe's second largest oil producer behind Britain.

Aker and DnC entered into the agreement with Total at a time when both ware hard-pressed to raise fresh capital to lift them out of their financial doldrums of the last two years.

Since then, both companies have seen improvements in their financial standings and Saga's share value has increased along with world crude oil prices. Saga has in oil and gas reserves in excess of 1bn barrels and is currently developing its first oil field.

Aker is understood not to be seeking a new buyer for its Saga shareholding.

Omni up 67%, sets first payout

By John Wicks in Zurich

OMNI HOLDING, controlled by Swiss financier Mr Werner Rey, is to pay its first dividend following a 67.4 per cent jump in net profits last year to SFr30.2m ($18.8m) from SFr18m.

At the same time, the company proposes to raise its capital by SFr55m to SFr655m by the issne of 110,000 bearer shares.

Of these, half are reserved for existing shareholders and the remainder held against any future issue of a convertible or warrant loan or for other purposes in the interest of the company.

Total participations of the company, of which Mr Rey owns about 80 per cent, rose in valne last year from SFr1.11bn to SFr1.42bn. Additions to the gronp portfolio in 1988 included a 20 per cent stake in the Swiss engineering concern Sulzer Brothers (increased to 30 per cent this April) and the acquisition of Omni Corporation Investments, a previously unrelated New Zealand company which has a minority role in Mr Harry Goodman's International Leisure Group of the UK.

Among Omni Holding's other involvements are full control of Jean Frey, the Swiss publishing and printing group, a 73 per cent stake in the engineering company Ateliersde Constructions Mecaniques de Vevey, 40 per cent in Swiss Cantobank (International) and 37 per cent in Inspectorate International, a quality control group.

Canada to sell rest of airline

By Robert Gibbens in Montreal

THE CANADIAN Government has confirmed it will go ahead shortly with the sale of its remaining 57 per cent holding in Air Canada, the national airline.

Last October Air Canada raised C$240m (US$203m) through an issue of Treasury shares which brought the Government's interest down from 100 per cent to 57 per cent.

At present market prices this holding totalling 41m shares is worth about C$470m.

Quantum sues Sony over drives

By Louise Kehoe in San Francsico

QUANTUM, a leading US manufacturer of disk drives for personal computers and computer workstations, has filed a suit against Sony alleging that the Japanese company has copied its disk drive design and is selling drives below cost in the US.

The suit, filed in San Jose, California, seeks unspecified damages. It charges Sony with patent infringement, unfair trade and dumping.

At issue in the case are a range of 3¼-inch diameter "hard" disk drives for which both Sony and Quantum have recently received big orders from Apple Computer.

Mr Stephen Berkley, Quantum chairman, said: "Not only do we believe that Sony has infringed our patents, but their drive looks identical to ours. It is obvious to us that Sony has even copied our architecture."

● Digital Equipment, the second largest US computer company, plans to freeze the salaries of its 73,500 US employees in a cost-cutting measure. It said it was taking the measure to counteract slack demand and low profitability in its US operations.

The freeze is scheduled to go into effect in July at the start of the company's 1990 fiscal year. The company said it would review the position at the end of the first quarter.

Digital has limited hiring in the US over recent months, and is considering "all cost containment possibilities" the company said. No job losses were, however, being planned, it added.

Digital reported a 16 per cent decline in earnings for the third quarter to April and said US demand for its minicomputer products fell below expectations, while European and Asian business was strong.

According to industry analysts, DEC's US sales have slowed, partly because of an industry wide softening and also because of increasing competition from companies such as Hewlett-Packard.

Pernod acquires Orlando Wines

By Our Financial Staff

PERNOD RICARD, the French drinks group, has acquired a majority stake in Orlando Wines, Australia's second largest wine company.

Although financial details were not disclosed, the Barossa Valley-based Orlando had 1988 sales equivalent to some FFr500m ($78.1m) representing nearly 17 per cent of the Australian market.

Mr Chris Roberts, managing director of Orlando, said the move enhanced export prospects in Europe and that the funds would be used to expand.

Management of Orlando is to retain a large minority stake.

Threlfall's ultimate dream comes true

Andrew Hill on the task facing T&S Stores following its large acquisition

WHEN IT comes to glamour, fashion retailers and discount tobacco shops stand at opposite ends of the high street.

Last week, T&S Stores brought a bizarre alliance of the two to an end when it purchased the Alfred Preedy and Dillons chains of confectionery, tobacco and newspaper (CTN) stores from Next for £53.9m.

At the same time, Mr Kevin Threlfall, chairman and chief executive of T&S, succeeded in thrusting his chain of 175 CTN stores into the limelight, 14 years after he opened the group's first cut-price cigarette kiosk in Wolverhampton market.

Next bought Dillons and Preedy while Mr George Davies was still at the helm. He was sacked late last year, prompting the fashion retailer to refocus on its core businesses.

Spotting an opening, Mr Threlfall phoned Next to ask if the CTN businesses were for sale, almost before Mr Davies was out of the door.

That market-stall audacity and the apparent enthusiasm of the Dillons and Preedy management for a link with the Midlands chain – the current deputy chairman and managing director are to join the T&S board – may explain the price, which was somewhat lower than observers had suggested.

Mr Threlfall, for one, is not complaining. The Next deal should mark a major leap for his group, doubling turnover to about £250m a year, and tripling the number of outlets to 573 before rationalisation.

Kevin Threlfall (left), chairman and chief executive, with Stephen Boddice, his finance director

T&S, which trades as Supercigs, came to the USM in 1984 and graduated to a full listing three years later. Profits have grown steadily since, with a return of £3.03m before tax last year.

"Our dream was to have 100 stores, which we achieved in December 1986," said Mr Threlfall last week. "I always secretly hoped that one day we might get Preedy – so really this is the ultimate dreem come true."

The theory behind T&S's strategy looks strong, but how easily can it swallow 400 or so Dillons and Preedy stores and a 2½-for-one £50m rights issue?

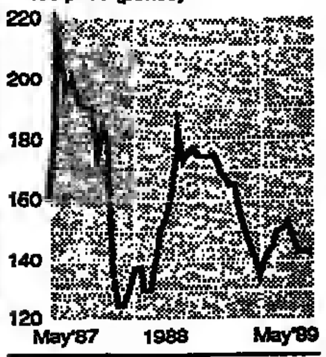
T&S has been looking to expand its news retailing outlets – newspapers are sold in less than 20 per cent of its existing stores. Acquisition is the easiest way to do this, because news-selling is restricted by wholesalers to a certain number of outlets in each town. Once in the market, CTN stores have a virtual monopoly on the trade, a major advantage as it draws potential customers into the shop where they make impulse buys,like sweets.

The Dillons/Preedy acquisition also adds 42 convenience stores to the T&S portfolio, and should enhance the group's margins with the addition of non-discount stores in the suburbs.

Convenience stores are larger than basic CTNs, trading from about 1,000 or 2,000 sq ft and adding domestic staple items such as bread, eggs, and pet food, and services like video hire, to the traditional sweets, cigarettes and newspapers.

T & S Stores

Share price (pence)



In common with other small shops CTN stores lost out to major chains in the 1960s and 1970s. There are now 45,000 such outlets in the UK, mostly independently-owned, compared with 70,000 in 1961.

But Mr Threlfall – who also built up the Lo-Cost chain of discount groceries in the 1970s – believes there will be an increasing demand for town centre and suburban CTN and convenience stores, as people top up supplies bought earlier in the week at out-of-town hypermarkets.

There are difficulties, however. Multiples like T&S operate in a sector dominated by small shop-owners, whose livelihood depends on running a CTN. T&S and its main competitors, Martin Retail Group and Forbuoys/NSS, have to grapple with the problem of motivating staff with a less vital connection to the business.

T&S says that on this count, incentive schemes and the prospect of promotion in a larger organisation encourage good managers. Dillons, which also trades as Argus and Mallows, already operates a successful management remuneration scheme.

The Midlands group hopes to handle other perennial problems of the small shop, such as overstocking of perishable food in convenience stores, with improved computer systems

Mr Threlfall and his finance director Mr Stephen Boddice, who joined in 1977, refused to be drawn last week on the possibility of earnings dilution.

"It's going to be a bit of a dog's dinner in the first year because we'll only take it in for six months, including the holiday and Christmas periods. We've asked investors to look at 1990 for the major benefits," said Mr Threlfall.

Observers need only wait until June 6, when the shares emerge from suspension, to see how the market views the deal. But it will probably take somewhat longer before anyone can tell whether the Wolverhampton cigarette kiosk has truly come of age.

Alpine falls deeper into red but gets Britvic boost

By Clare Pearson

ALPINE GROUP, troubled fizzy drinks company, has announced higher losses in 1988 but also said it had won exclusive rights for the manufacture and home distribution of Britvic brands, which include Corona and Tango, in the UK.

Birmingham-based Alpine, a door-to-door supplier of soft drinks in returnable glass bottles, is hoping the deal will rectify the declining popularity of its own products in the households of the industrial heartlands of Britain.

Last year's wretched weather during the crucial school holiday months of July and August was at the root of a worsening in pre-tax losses to £1.26m (£94,000), despite stringent cost-cutting measures.

"The line is fine between famine and relative feast and is heavily dependent on sales volume," said Mr David Haggett, the chairman. Turnover was £9.57m (£9.83m).

A five-year rolling deal with Britvic Soft Drinks, which is jointly owned by the brewers Bass, Whitbread, and Allied Lyons, includes, subject to approval, the Pepsico brands Pepsi and 7-Up, for which Britvic has the UK licence.

Diversification plans of the current management, which took over when Pedigree Group, previously a toy manufacturer, invested £2.14m in August 1987, were earlier deferred by the severe slump in Alpine's share price after the stock market crash.

There is a £277,000 exceptional provision against integration costs for the new products. After a tax credit of £232,000 (£38,000), the loss per share was 5.39p (0.4p).

Attwoods starts its Continental growth

By Clare Pearson

ATTWOODS, the waste disposal company with most of its business in the US, has made its first move into mainland Europe through the purchase of Omega, a West German company, for up to £15.4m.

Omega currently commands some 75 per cent of the German market for mobile sanitation units but Attwoods is hoping to take it into other areas of the solid waste management industry. Omega also operates in Holland.

The initial £10.5m consideration is, apart from a £216,050 cash payment, being satisfied by the issue of 2.5m shares, 641,231 of which are being placed.

A deferred consideration of up to £4.9m depends on Omega achieving pre-tax profits of DM7.7m (£2.43m) this year, and DM8.4m (£2.64m) next.

Mr Frederick Edwards, Omega's majority shareholder and an American who is resident in Germany, is joining Attwoods board with responsibility for the company's development on the Continent.

In March, Attwoods said, when it announced pre-tax profits up 49 per cent at £8.51m in the last financial year, that it had set aside $70m for acquisitions in the US as well as West Germany.

Radio Clyde tops £1m as profits show 67% growth

RADIO CLYDE, the USM-quoted independent local radio station serving Glasgow, reported a 67 per cent jump in pre-tax profits for the six months to March 31.

The £1.02m (£608,000) achieved consists of £975,000 of its own profits as well as £40,000 contributed by NorthSound, a station serving the north of *Scotland it acquired* this year. Group turnover rose 25 per cent to £4.09m (£3.26m), of which £363,000 came from NorthSound. Advertising revenue grew by 14 per cent.

Earnings increased to 10.8p (6.8p). The directors said they believed that the relative amounts of the interim and final dividends should be brought closer together. And in view of the increased profitability in the period they have raised the interim dividend to 2.75p (1.75p). There was an extraordinary credit of £84,000, relating to the disposal in September of an unlisted investment.

The directors said that advertising revenue could be volatile and therefore it would not be prudent to predict results for the year as a whole. They added though that trading since March 31 had continued to show satisfactory growth.

Kenmare placing collects I£1m

Kenmare Resources, the *Dublin-based, USM-quoted* mining and minerals company, has collected more than I£1m (£841,680) by placing shares with a group of London institutional investors.

Albion advances in first half

Albion, Belfast-based clothing maker, reported pre-tax profits of £441,348 for the six months to March 31, againt a previous £316,285. An interim dividend of 1.3p (1p) is being paid. Turnover rose to £5.71m (£4.65m).

Kynoch suffers £199,000 loss

G&G KYNOCH, the woollen cloth manufacturer, based in Banffshire, fell to pre-tax losses of £199,000 in the the six months to February 28, compared with profits of £11,000 in the corresponding period.

Turnover was up 10 per cent to £2.38m and the interest charge doubled to £168,000 (£81,000). Losses increased to 36.3p (1.7p) per share.

The directors said that the acquisition in February of Laurence J Smith, the Shetland-based knitted goods maker, the development of new upholstery fabrics and a joint marketing agreement with McDonnell Douglas all gave them cause to be confident in the longer term. With these factors in mind, they have maintained the interim dividend at 1p.

Mr Gordon Hay, chairman, said that despite industry statistics for the period showing that exports of woollen fabrics had fallen 15.5 per cent in volume terms and 13.5 per cent in value terms, Kynoch had maintained its export turnover at a similar level as last year.

However he added that there had been a significant drop in sales of overcoating fabric, because of the exceptionally warm weather worldwide. He said that orders in the critical February to April period had not reached budgeted levels. As a result, short-time working was initiated in the factory at Keith during April. Woven fabrics would not see a return to profit in the second half, he said.

More profit warnings

CLIFFORDS FOODS and Gibbs and Dandy have became the latest companies to issue profit warnings.

Mr Dennis Randall, chairman of Cliffords, told the annual meeting that lower earnings from fruit juices and drinks, where competition was affecting margins, was the major factor behind an expected fall in interim pre-tax profits from last year's £2.68m.

The chairman added that bottled milk volumes were continuing to decline but other parts of the business were performing satisfactorily.

Shareholders in Gibbs and Dandy, the builders' merchant, were told by Mr John Dandy, chairman, at the annual meeting that it was clear that conditions prevailing at the end of the last financial year were continuing.

"While the company has reviewed its level of overheads it is inevitable that results for the first half of 1989 will be significantly below the pre-tax profit of £452,000 achieved last year," he said.

FT Share Information

The following securities were added to the Share Information Service in Saturday's edition:

Amberley Group (Section: Industrials).

Brompton Holdings (Industrials).

Property Company of London (Property).

Summer Intl. Preference shares (Stores).

United Drug (Regionals-Irish).

COMPANY NEWS IN BRIEF

BULGIN (AF) has acquired BP Purchasing (Electronics) for £275,000 cash. BP, which is involved in the export of electrical and electronic components and instruments, reported pre-tax profit for 1988 of £48,039 with net assets at the end of the year of £169,256, of which £112,769 was cash.

CANNING (W), through its Marston Bentley subsidiary, is acquiring 90 per cent of the capital of Levenit Chemical of Turin, Italy. Levenit manufactures specialised lubricants used in the aluminium and plastic moulding industries as release agents.

CITYVISION: Mr David Quayle, chairman, told shareholders at the annual meeting that progress in the current financial year had continued strongly. He said the company was market leader in the UK video film hire market which was growing at about 10 per cent per annum.

HOSKYNS GROUP: The employee offer following which up to 10 per cent of the 8.16m Hoskyns ordinary placed on behalf of Plessey were reserved for applications by directors and employees of the group at 390p, has been oversubscribed. Valid applications will accordingly be scaled down pro rata. Institutional placees will be advised of their take-up in writing for settlement on May 28.

LEGAL & GENERAL Assurance: Sir James Ball, chairman, told shareholders at the annual meeting that the current year had started well with the property account continuing to produce an underwriting profit in the first quarter thanks to the mild weather. But increased premiums payable for re-insurance cover, low increases in private car rates and the reduction in commercial property rates could result in the overall underwriting experience for the remainder of the year falling below that of 1988.

PLEASUREWORLD: RKF Group now owns or has acceptances in respect of an aggregate 2.82m Pleasureworld ordinary (94.5 per cent) and offer unconditional as to acceptances. Partial cash alternative will remain open until June 1.

SHANDWICK has acquired the Wenz Neely Company, the fourth largest independent public relations consultancy in the south east US, for an initial $460,000 (£268,000). Further performance-related payments may be made, with the total consideration not exceeding $3m (£1.9m).

SHIRES INVESTMENT had a net asset value of 251.73p (234.05p) at March 31 1989. Final dividend 5.45p for a 15.5p (14.75p) total. Earnings per 50p share 16.54p (17.49p).

STEEL BURRILL Jones Group shareholders were told at the annual meeting that 1989 was proving to be equally, if not more, exciting than last year.

SUN ALLIANCE: Mr HUA Lambert, chairman, told the annual meeting that benefit had again come from a mild winter in the UK and, despite increasing competition, both personal and commercial businesses had made underwriting profits. On the other hand the results from some overseas territories had showed a deterioration. Strong growth in investment income and an increased contribution from life business, added to overall underwriting profit, had produced an increased pre-tax profit compared with the first quarter last year.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Compass, Consolidated Co Burtonlein, Countryside Props, F & C Eurotrust, Greenall Whitley, Griqualand West Diam Min, Irvin, Parloom, Shaftesbury, Union Steel Corp, Western Selection, Whessoe, Finals- Associated British Foods, British-Borneo Petrol, De Morgan, London & Overseas Freighters, Murray Technology, Petrocon, Plessey, Premier, Sheldon Inv Trt.

FUTURE DATES

Interims-

Acatos & Hutcheson	May 26
Caldon	May 24
Telecomputing	June 5
VPI	June 8

Finals-

Gaevor	July 3
LPA Industries	June 27
Pryer	June 1
Powell Duffryn	June 5

FINANCIAL TIMES STOCK INDICES

	May 19	May 18	May 17	May 16	May 15	May 12	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	86.70	86.70	86.60	86.74	86.83	86.76	89.29	85.84	127.4	49.18
Fixed Interest	97.31	97.03	97.34	97.35	97.44	97.05	99.59	95.93	105.4	50.53
Ordinary	1837.5	1810.1	1792.2	1776.2	1787.2	1779.1	1837.5	1447.8	1926.2	49.4
Gold Mines	168.8	175.0	179.4	176.3	177.8	176.3	196.1	154.7	734.7	43.5
FT-Act All Share	1131.41	1118.29	1108.69	1100.20	1105.75	1099.00	1131.41	921.22	1238.57	61.92
FT-SE 100	2204.7	2177.3	2155.8	2136.7	2149.9	2135.7	2204.7	1782.8	2443.4	986.9

FINANCIAL TIMES SURVEY

Separated by mountain ranges from the population centres of Tokyo and Osaka, Hokuriku is part of "the other side of Japan." A Government decentralisation policy means this spacious, prosperous region could be set for new growth.

A survey by **Robert Thomson**

HOKURIKU

Three prongs of potential

WHEN TRAVELLING businessmen from Toyama are weary of trying to put their home town in a precise geographic perspective for inquisitive foreigners, they sometimes simply say that the city is a suburb of Tokyo. But between Tokyo and Toyama, there is a mountain range and a cultural divide, and the provincial populace has a strong sense that it is closer to the soul of the real Japan.

There is the matter of space. The gaudy pinball palaces, called *pachinko* parlours, of Toyama – on the west of Honshu island and one-third of the Hokuriku region – have car parks or back onto paddy fields. The roadside vegetation includes rambling car yards and drive-in men's wear stores, and a mix of advertising signs and billboards that are the mark of a car culture.

The elders of Toyama prefecture (population 1.125m) reckon that several hundred thousand more people could be supported in the area, and so there are plans to lure back the "young talents" drawn toward the bright lights of Tokyo. It is said that the "U-turn" figures are up – more of the young educated are returning to a region where the two-car family is an institution and home ownership averages 85 per cent, well above the national average of 62 per cent.

Toyama city, Kanazawa and Fukui city are capitals of the three prefectures collectively known as Hokuriku. The title dates from AD 645, and their modern relationship as parts of Hokuriku began in 1967. Regional groupings were popular at the time. Most of the 3m people in the region do not immediately think of themselves as Hokurikans; the strong sense of home town gets the better of a grander idea of economic and cultural community.

As well as developing a broader international outlook, modern Japan is turning inward. The romance of the rural is strong. Prime Minister Noboru Takeshita gave each of the nation's towns Y100m for the overhaul of the *furusato* or home town. Still, the prefectures do like to combine statistics – Hokuriku has only 2.6 per cent of Japan's population, but 6.4 per cent of the libraries, 4.9 per cent of the museums and 5.4 per cent of the community centres.

There is a Hokuriku expressway and a Hokuriku Bank, and power is provided by Hokuriku Electric. There will probably be a Hokuriku *shinkansen* (bullet train), and the three governments are discussing and disagreeing over where to put Hokuriku international airport. Each prefecture would like its own airport capable of handling international flights, and wants the Hokuriku international airport to be as close as possible.

Mr Saiji Ohta, secretary-general of the Hokuriku Economic Federation, has a vision of co-operation that would give the three prefectures more economic and political influence, but he recognises that local interests are strong and enduring: "The first thing is to bring the three areas closer, then we would have a clearer idea of our potential."

Yoichi Nakanishi, governor of Ishikawa

Uneven economic development is making Mr Ohta's job harder. Kanazawa, capital of Ishikawa prefecture, is thriving on Tokyo money. Fashionabla retailers have opened stores, and the spronting skyline has big city neon. On a 600-metre stretch on the main commercial street, a doughnut chain has opened three stores. A few blocks away are the old geisha district and temples of the ancient castle town, which was not bombed during the war, perhaps through good taste rather than poor marksmanship.

Kanazawa seems bigger than a population of 430,000 suggests. It is where tourists go for a good time and companies invest. The governor, Mr Yoichi Nakanishi, is prond that "15 big enterprises" have come to Ishikawa, and his goal is to lift the local share of national industrial production from 0.73 per cent to 1 per cent.

For all three prefectures, the recent past has been a time of industrial restructuring, a difficult process cushioned by a 5.7 per cent national growth rate last year, the highest in 15 years. Fukui, the "kingdom of textiles," and Toyama prefecture, the "kingdom of aluminium," are also courting Tokyo money, and want foreign companies to do what the Japanese have done abroad: to invest.

For the present, domestic demand is pushing industry along. Mr Michio Shimokawa, director of Fukui's Commerce, Industry and Labour Department, says there is an "imbalance" in employment, despite the closure of textile factories. The unemployment rate is just over 2 per cent, and companies are accepting applicants who would be rejected if the labour market were not tight, he says.

The governors of the three prefectures are a touch annoyed that Hokuriku is thought of as the "back side" of Japan. Traditionally, they say, the region was the door to Korea and China, and ushered in the cultures that have so inflnenced the character of Japan. The governors believa that the region will again become the "front side" as relations hroaden with China and South Korea, and improve with the Soviet Union. Already lumber imported from the Soviet Union lands at Nanao, a port in Ishikawa, where it is processed and passed on.

Agriculture is a problem for each of the prefectures. The farm vote is important in Japan, and farmers sense that pressure from the US for a more open domestic market is an increasingly serious threat to them.

Mr Hiroshi Ishigaki, mayor of Nanao, says that local farmers "feel insecure," but many are fortunate to have second johs. "They also work in offices."

In Ishikawa, the farming population has been in consistent decline. In the past six years, the ratio of farm households has fallen from 21 to 16 per cent. Mr Yutaka Nakamura, Kanazawa's planning director, says few farmers can afford to depend on agriculture alone for their earnings, and the temptation to sell up is great. Farmers on the fringe of the city are particularly tempted, as they can buy land five times the size in an outlying area from the proceeds of the sale.

"Land developers encourage them to leave the land near the city. Generally they don't force them to leave," Mr Nakamura says.

The ever-widening gap between the rustic past and the present, and the realisation that region has achieved wealth, at least in GDP terms, have prompted officials to consider the importance of needs other than the material.

Mr Yutaka Nakaoki, governor of Toyama, says he has three challenges.

"I want Toyama to be the best in health and sport, and to be the best in flowers and nature, and to be the best in culture and science. I want to devote my energy to these challenges. Toyama may be an experimental theatre for the rest of Japan."

(Mr Nakaoki has already made a curious contribution to the quality of local life. Toyama is famous for its orchids, and each year delivers complimentary orchids to, among others, the country's most powerful politicians. The governor thought it a shame that parts of the flowers were wasted in the preparation, and suggested that these be used to make a perfume. The result is a line called "Fragra.")

Yasuji Shimizu, Socialist Party representative

Each of the prefectures bopes to benefit from the national government's plan to decentralise administrative functions and to unclutter Tokyo. Not much has trickled down yet, though the governors hope that a national show or nuclear research institution may be established in the region.

A Tokyo problem that has caused changes is the Recruit scandal. Virtually all politicians admit that people of Hokuriku, also known as the "kingdom of conservatism" because of its strong support for the ruling Liberal Democratic Party, will be less enthusiastic about the LDP at the next election. Local politics will also be affected.

Mr Yasuji Shimuzu, a Socialist representative in the Ishikawa assembly for 27 years, says tbe scandal has damaged the image of even local politicians, and made corporate supporters more wary about funding candidates. Mr Jin Osaka, an LDP representative and deputy chairman of the Ishikawa assembly, says that personality is more important than party ties in local elections, but admits that attracting new members to the party will be difficult.

Mr Yutaka Nakaoki, the Toyama governor, says excessive centralisation of power in Tokyo was one of the causes of Recruit. He blames "the bureaucracy" and its attempts to preserve power for continuing centralisation. "All work should be done under the observation of the people. With too much centralisation, no one really knows what is going on."

As for the future of Hokuriku, Governor Nakaoki says each prefecture has a responsibility to develop a "mutual relationship," yet must also "nurture and enhance the differences between them." In other words, he says, Toyama, Fukui and Ishikawa should be "good rivals."

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Photographs: Robert Thomson

☐ (left) Softball team on a Saturday morning in Ishikawa

The economy is changing, with growing emphasis on the service industries

Not as unexciting as it looks

FOR THOSE who believe in a Japan conspiracy theory, for whom Japan's success has been been won through rule-rigging, an uneven playing field and a tampered-with football that was made-in-Japan, a wander through the changing economy of Hokuriku is a learning experience.

A group of foreign investment analysts headed a report on Hokuriku's financial institutions with the words "unexciting economy," which is, perhaps, a fair description for an region whose glamour items are zippers, bulldozers and bearings. Yet, the efforts of traditional manufacturing industries to stay alive despite the risen yen and competitive Asian neighbours are evidence that the gain has not been without pain.

Meanwhile, Hokuriku's farmers, aware that the intensified protectionist pressure in the US will inevitably mean more concessions on agricultural imports, are trying through local politicians to safeguard livelihoods as vulnerable as those of the farmers of Western Europe. And the region's banks, long sheltered by restrictions on competition, are in a more exposed, freer – though not free – market. Things are moving in an "unexciting economy."

Toyama is the most industrial of Hokuriku's three prefectures, having been able to turn water resources into hydroelectric power. Mr Norio Tanaka, director-general of the Commerce, Industry and Labour Department, says that the appreciation of the Japanese currency has forced some factories to "stop operations," but he does not give a precise figure.

He adds that many other factories have "changed machinery to adjust productivity and quality," though the area has been fortunate because "we are not dependent on one kind of industry: we have a lot of components industries, which provides flexibility."

The director-general wants the area to put more emphasis on service industries, and believes that factories must continue to reach for higher-value added production. "We want to be an international convention centre. We are interested in the brain portion of industry," he says. That also means turning to high-tech,

Yasuo Ohtsuka, managing director, Nachi-Fujikoshi

and encouraging foreign companies and Japan's big city corporations to invest.

One of Mr Tanaka's favourite companies in the region is Nachi-Fujikoshi Corporation, the country's leading producer of cutting tools and a major producer of bearings and robots. Mr Yasuo Ohtsuka, the managing director, says the yen's rise "really hurt us," and forced "severe cost reductions."

The company's net income in the year ended November 1985 was Y1.678bn, but a year later it fell to Y661m. In 1987, income recovered to Y1.144bn and last year it was Y1.78bn. Mr Ohtsuka says Nachi cut the down-time of machines, produced more value-added items and shifted manpower from production to sales.

Nachi's bearing sales are tied to the success of the automotive industry, which takes about 40 per cent of production, while another 30 per cent is exported – a third of that to the US.

Last November, the US Department of Commerce ruled ball bearings and certain types of imported roller bearing imports would be subject to dumping duties. Mr Obtsuka argues that the company has not been dumping bearings, and that there has been a "misunderstanding" partly attributable to currency fluctuations.

Nachi-Fujikoshi's past reflects the often-complex history of Japanese companies. The company began by making hacksaw blades in 1928, and was named Nachi a year later in honour of the late Emperor Hirohito's warship, which, at that time, was visiting Osaka. The Fujikoshi has Buddhist origins, and means something like "unique and superior." The company is expanding its offshore interests, and recently launched a hydraulic equipment joint venture in South Korea, adding to facilities in Spain, Brazil and the US.

Strong domestic economic growth has been an important aid to most Hokurikan companies, and the results of their restructuring will need to be reassessed if economic momentum slows significantly. Last year, the country's economy grew by 5.7 per cent, the highest rate in 15 years. A survey of Japanese companies by the Nihon Keizai Shimbun, the

Yukio Kurita, the Governor of Fukui

leading business newspaper, found that the manufacturing industry expects growth of around 10.2 per cent in the year to March 1990.

Mr Michio Shimokawa, director of Fukui's Commerce, Industry and Labour Department, says that many of the prefecture's factories have cut exports and increased sales to the domestic market. He argues that the development of high technology is crucial to the region's success, but particularly so in Fukui, which has been hardest hit by the decline of Japan's textile industry.

Apart from textiles, the prefecture has long been the country's optical frames maker, accounting for about 90 per cent of national output. Mr Yukio Kurita, Fukui's Governor, says frame makers are now being encouraged to develop their own design departments: "Technology and design are the two most important factors. Now we get frame designs from Europe and America, but we would like to see people design frames independently."

Secondary industry accounts for about 31.5 per cent of output in Fukui, compared to 29.5 per cent in Ishikawa, and 38.8 per cent in Toyama. Fukui has the largest primary industry output at 3.4 per cent, while in Ishikawa it is 2.7 per cent, and Toyama it is 3.3 per cent.

The future of the debate over agricultural imports is of particular importance to Mr Kumeo Hosokawa, a former rice farmer and now the Mayor of Matto in Ishikawa prefecture. Mr Hosokawa, a green feather attached to his lapel to show his support for a greening campaign, says farming and farmers need to be protected, and that a balance should be maintained between the development of primary, secondary and tertiary industry.

"Tradition should be considered when evaluating the rice issue. It has been what we have been living on since traditional times. From the point of view of the international economy, it's clear that rice costs a lot more here, but other things should be considered. I think we can make an effort to lower the price of our rice," Mr Hosokawa says.

Mr Hiroshi Ishigaki, the Mayor of Nanao, who also has a large farming constituency at the neck of the Noto Peninsula, says he and the farmers, whose main crop is rice, are "worried about the future.

"Even now, the total amount of rice produced is too much. The farmers want me to give them snbsidies so that they can continue in agriculture. I am promoting their ideas as much as possible. Whenever I see our governor, I raise the issue."

Mr Yoichi Nakanishi, the Governor of Ishikawa, is sympathetic to the farmers, but is keen on investment from large corporations to develop industry in the prefecture. "We have already had 15 big corporations come to the area. Big foreign companies haven't come yet." He recognises that the textile industry has serious problems, and says that the silk industry is "disappearing."

More of a success story is Nicca Chemical in Fukui. The company was founded in 1938 as a manufacturer of chemical agents for textile production. It thrived as the local textile industry thrived, and, naturally, suffered with the industry, though it was somewhat buffered by international joint ventures that began in 1968 with a Taiwanese company.

Having mastered the art of textile dyes, the company developed a line of hair dyes in 1986, and now produces sprays, mousses and tonics sold direct to hairdressers in Japan. Mr Mikio Emori, president of Nicca, and until recently vice-chairman of the Fukui Chamber of Commerce, says that the new distribution system will allow the company to market foreign hair products, and already has plans for links with a British producer.

Mr Emori says that putting the emphasis on quality and avoiding a cheap image, partly achieved by charging more than most other makers, has been particularly important in making the new line a success. The company sold 700 tonnes of hair products last year, up 60 per cent on 1987.

THE THREE PREFECTURES

	Fukui	Ishikawa	Toyama
Land area (sq km)	4,191	4,197	5,252
Population ('000)	818	1,153	1,125
1987 GDP (Ybn)	2,068	2,713	2,914
% Japan	0.7	0.8	0.9
% primary	3.4	2.7	3.3
% secondary	31.5	29.5	38.8
% tertiary	65.1	67.8	57.9
Industrial shipments (Ybn)	1,574	1,795	2,889
Textiles	385	292	193
Chemicals	115	39	311
Machinery	84	461	290
Metal products	62	74	627
INDUSTRIAL PRODUCTION INDEX (1985 = 100)			
January 1988	105	116	110
October 1988	112	119	109
Bank deposits (Ybn)	1,511	2,082	2,080
Bank loans (Ybn)	1,068	1,973	1,663

THE REGION'S BANKS

A deregulated future leads to search for new customers

THE RISE of the Fukuho Bank in Fukui is a sign that the gradual deregulation of the Japanese financial system is forcing smaller, provincial institutions to find new sources of revenue in an increasingly competitive banking environment.

Previously a sogo or mutual loan and savings bank, which is supposed to concentrate on a small metropolitan or rural area and has tougher lending limits, Fukuho has just graduated to become a regional bank. Mr Akinobo Maegawa, the bank's managing director, says the financial reforms have "prompted us to become fully accredited" and to "find new customers."

Other mainstream banks are also having to contemplate a deregulated future. In Toyama, the Hokuriku Bank, the largest in the region, wants to extend its influence to London, where it is expected to be the next Japanese bank to get a branch licence. At present, the bank has a London representativs office and has received approval from Japanese authorities to open a branch in London.

Hokuriku Bank wants to open a London branch. It remains for the Bank of England to grant approval

All that remains is for the Bank of England to grant approval. The Hokurikans have been waiting for the go-ahead for all of three years.

"The most important reason for us to have a London branch is to satisfy our customers' needs. We have a lot of Japanese companies with international operations, so it is very important for us to be able to service them," Mr Gen-ichi Kanai, the head of Hokuriku Bank's general planning department, says.

The bank is aware that among the reasons why it has had to wait for a licence is British concern about the delay of two institutions, BZW and James Capel, in getting seats on the Tokyo Stock Exchange, which claims there is simply no room. While the Bank of England clearly does not want the issue seen as one of crude reciprocity – a licence here for couple of stock exchange seats there – the Hokurikans are aware thet debate within Japan's Ministry of Finance over the stock exchange issue has relevance to their case.

Hokuriku Bank is generally regarded by foreign analysts as one of the most successful of Japan's 64 regional banks, and it has risen steadily up the world bank rankings, by deposit, to be the 78th largest in the world. It has a New York branch, and last year increased its level of foreign exchange transactions by 35.2 per cent.

Mr Kanai says the bank has been successful because of its close relationship with Hokurikan companies. "We share the joys and the grievances of companies. We have a common fate. The bank has to support companiss going through structural changes, and then the customers always accept the bank as trustworthy."

Japan's big city banks have been keen to establish outlets in ths prefectures, but Mr Kanai does not see any immediate threat. Hs says local people do not need those banks because "we are already providing the services," and the strong corporate connection is difficult for outsiders to undo. Around 62 per cent of the bank's lending is to small and medium companies.

The bank has had a long relationship with YKK, the world's leading zipper making and fellow Toyama company, and has interests in various other prominent companies in the region. Bank officials say Toyama people have a particularly broad vision, and so it followed them as they expanded their businesses within Japan and then abroad. Asked about bankruptcies, officials admit that they do happen, "but the main thing is to find a way of keeping the company afloat," a long Japanese tradition.

Two other Hokuriku-based regional banks, the Fukui Bank and the Hokkoku Bank, are listed on the Tokyo Stock Exchange, with Fukui the 30th largest regional bank and Hokkoku the 32nd largest. Both have been regarded as conservative by analysts, but both have also produced development plans in response to the reform of the banking sector.

Mr Maegawa at the Fukuho Bank stresses the importance of offering present customers more services as a response to increased competition. He cites a national relaxation of control on June 5 of interest rate ceilings for deposits of Y3m and over as an important test of competition: "We might try to use interest rates as a weapon."

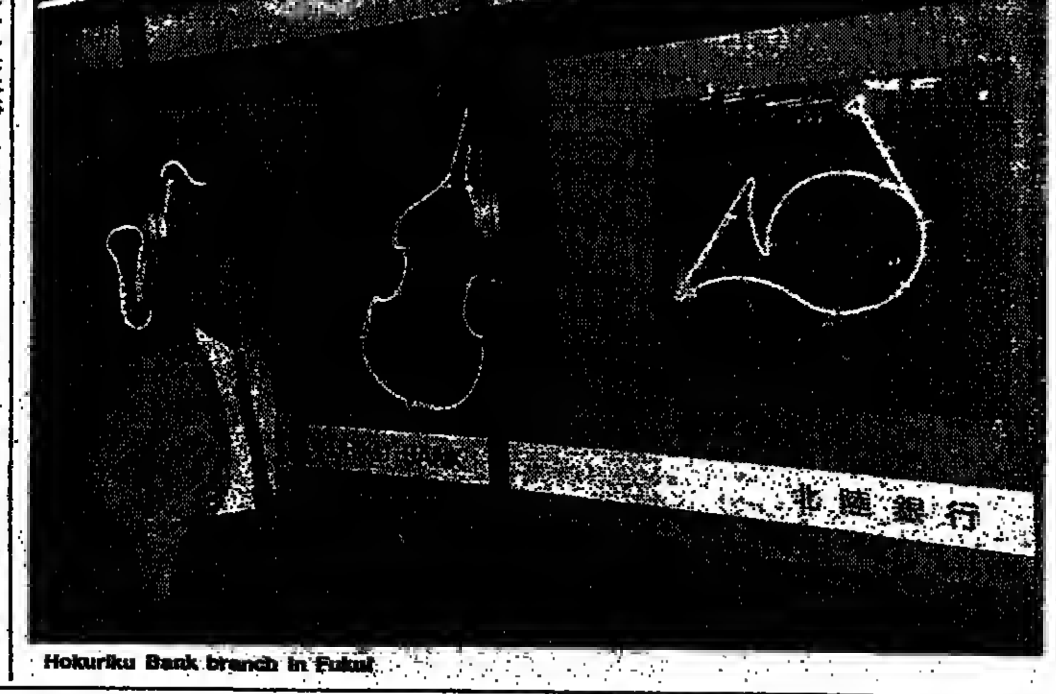
He says that while increasing consumerism has influenced saving rates in Japan, Fukui people have a particularly good reputation as savers, partly because they have been less affected by the sharp rise in big city housing prices that has dissuaded many Japanese from saving for a home. Fukui people also spend more than other Japanese on weddings, he says, and the average cost of those ceremonies, around Y10m (about £45,000) a couple, also demands assiduous saving.

A bank whose future depends not only on the course of financial reform, but also on the debate over agricultural protection, is the Fukui Credit Federation of Agricultural Co-operatives, which collects deposits made by farmers into smaller co-operatives. It then must pass at least 50 per cent of funds onto the Norinchukin Bank, the Central Co-operative Bank for Agriculture and Forestry which, by deposits, is ranked about sixth among the world's banks.

Fukui people spend more on weddings. Costing an average £45,000, they demand assiduous saving

The senior adviser of the Fukui federation, Mr Terumasa Hirai, says that it can lend money only to corporations in Fukui prefecture, and only after the borrowing needs of member farmers have been met. Almost all of the lending is done by farmers, as they are charged 3.5 per cent interest, while corporations must pay 6.5 per cent.

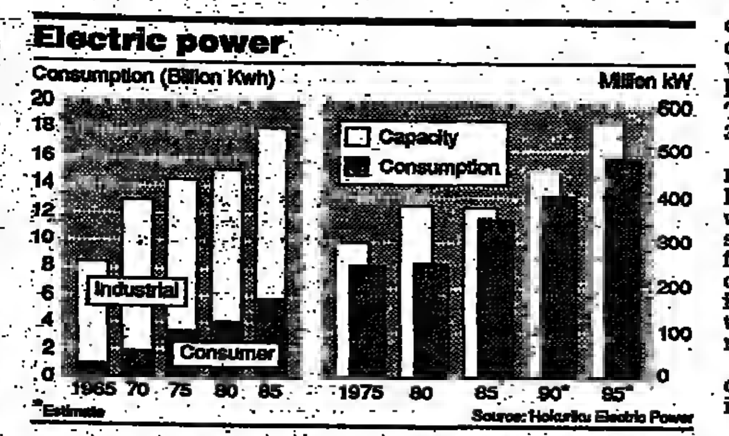
The co-operatives count on the devotion of farmers and, Mr Hirai says, will do "absolutely everything" for them. However, the farmers now have more choice of banks, while the co-operatives have restrictions on lending and in playing financial and foreign exchange markets that have limited profitability. On top of those problems is the threat to farmers' wealth posed by the opening of Japanese markets to cheaper, foreign agricultural products.

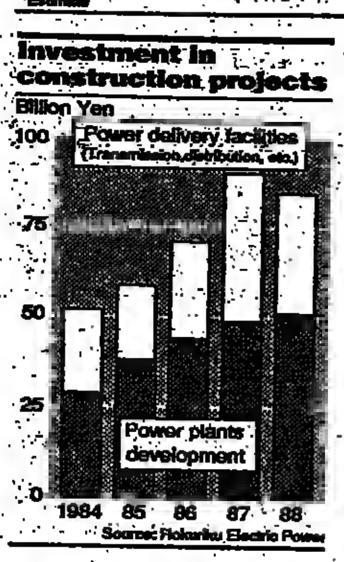


Hokuriku Bank branch in Fukui

NUCLEAR POWER

Taken aback by women





NOT FAR from the construction site of the Shika nuclear power station on the Noto Peninsula, a roadside billboard urges passing drivers to "show support for nuclear power." The station and billboard are the work of Hokuriku Electric Power Company, where Mr Takashi Kikura is in charge of the Nuclear Public Acceptance Division.

After a curiously delayed reaction to the Chernobyl accident, the anti-nuclear movement in Japan has gathered strength in the past year, and Mr Kikura's job has become all the more complicated. Recent mayoral elections in normally conservative towns on the Noto Peninsula have shown a strong anti-nuclear sentiment that has disconcerted some mayors in the area.

Mr Hiroshi Ishigaki, mayor of Nanao, says that the "nuclear power problem has had a great effect," but "I can't grasp how the people feel." Mayor Matsuda of Togi, a short drive from Shika, thinks the new plant "is not necessary, though I am not a member of an anti-nuclear movement."

He explains that local fishermen, fearing contamination of their industry, were the first to oppose the 540 MW Shika plant, due to come on line in 1993. Bnt, as in the rest of Japan, young mothars hava become the core of tha anti-nuclear movement in Hokuriku, and have become the people that Hokuriku Electric wants to be convinced of nuclear power's goodness.

The young mothera have been particularly influenced by fears of contaminated food, and post-Chernobyl, some have avoided products from northern Europe. A Kanazawa woman said that Japan's size means that the consequences of an accident would be far more serious for the country's food production than was the case in the Soviet Union after Chernobyl.

She says that Japanese husbands don't talk openly about subjects such as nuclear power at work. But women have increasingly discussed the issue among themselves, and have been particularly influenced by an activist hook, Kiken na Hanasi, that alleges newspapers and government officials have conspired to keep facts from the public. Given the present lack of public confidence in the Government, such a conspiracy theory goes down easily.

At Hokuriku Electric Mr Kikura agrees that young married women are worried about contaminated food. "The targets for our public relations programme are the housewife and the younger generation. Right now, we are explaining the need for and safety of nuclear power plants. We are handing out leaflets and holding lectures."

Japan's Atomic Energy Commission has stressed that nuclear power is better for the environment than the use of fossil fuels, and, in a report late last year, lamented that "groups of women and young people questioned the very necessity of nuclear power generation and the course of Japan's energy policy."

Officials at Hokuriku Electric also argua that nuclear power is essential for long-term energy stability, and, in conjunction with two neighbouring power companies, Kansai Electric and Chubu Electric, they are surveying a separate Noto site for another plant that will provide energy needed "20 years later."

Hokuriku Electric, one of nine monopoly-holding regional power companies, serves Toyama and Ishikawa prefectures and part of neighbouring Gifu prefecture. About 68 per cent of the electricity generated by the company is used by industry, whila the remainder is consumed by private householders.

Power use in the region increased by about 5.2 per cent last year, hut rate cnts requested by the Ministry of International Trade and Industry (MITI), which oversees power generation and charges, have kept the utility's profits flat.

The company is attempting to improve efficiency, which has not been a strong point for most of the conntry'a nine monopolies. It argues that the cost of nuclear power – estimated to be more than 30 per cent less than hydro and about 20 per cent less than thermal – is a good reason to expand the nuclear programme.

However, Japan's 36 nuclear power plants operated at 71.4 per cent of capacity last year, down from 71.5 per cent the year hafore. The Agency of Natural Resources and Energy says the causes included an increase in regular servicing, as well as unforeseen maintenance problems.

Hokuriku has been thought of as fortunate to have abnndant snpplies of hydroelectric energy, bnt water shortages in the fiscal year ended March 1988 forced the company to increase purchases of fuels. The hydro-generating capacity is abont 1,777 MW, while thermal capacity until last year was 2,162 MW. The peak load last year was 3,501 MW.

Mr Saiji Ohta, secretary-general of the Hokuriku Economic Federation, used to work for Hokurikn Electric. He says nuclear power is needed for the long-term development of the region, so the federation is doing "a lot of public relations work ebout the safety of nuclear power.

"At the moment the anti-nuclear movement is not affecting energy policy," he claims.

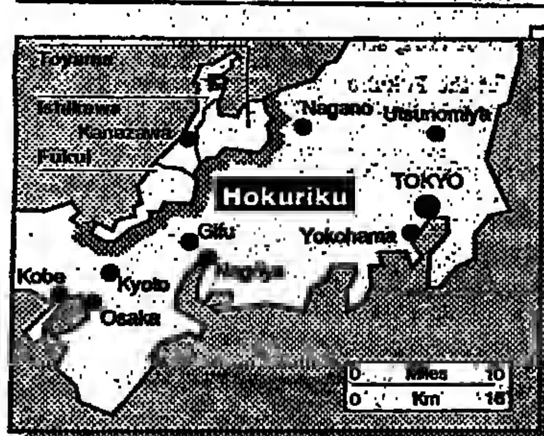
Mr Kikura, the Nuclear Public Acceptance Section manager, says that, apart from people living in the vicinity of the plants, most of the opposition has been organised in cities. In the cities, it is mnch easier to gather people for that kind of movement.

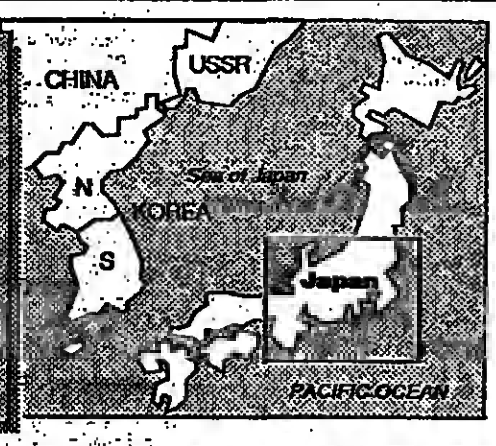
The exact strength of the movement is difficult to estimate, but an April mayoral election on Noto in which two candidates opposed to nuclear power received a comhined vote higher than that of the incumbent mayor has been one of the more tangible signs of discontent.

A Socialist Party member of the Ishikawa Prefectural Assembly, Mr Yasuji Shimizu, who has been a local member for 27 years, saya that he has studied nuclear power closely and concluded thet it was not worth the risk. He argues that the anti-nuclear movement has improved the returns for his party to the point where winning traditionally conservative towns is a possibility.

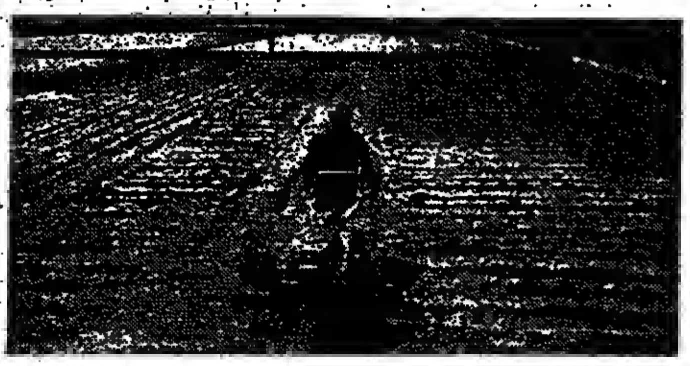
Mr Hiroshi Ishigaki, the Nanao mayor, is unsure how mnch the swing against sitting mayors can be attrihuted to the fear of nuclear power. He suggests that national issues, such as the Recruit stock scandal and the unpopular, recently-introduced consumption tax, have also been significant influences on public opinion.

The nuclear issue aside, the monopoly that Hokuriku Electric and its counterparts enjoy could be threatened by power industry deregulation. A few large factories in various parts of the country have found that self-generation is cheaper, while gas companies are keen to expand their influence. In the end, MITI is likely to be the judge of just how sacred the monopoly should remain.



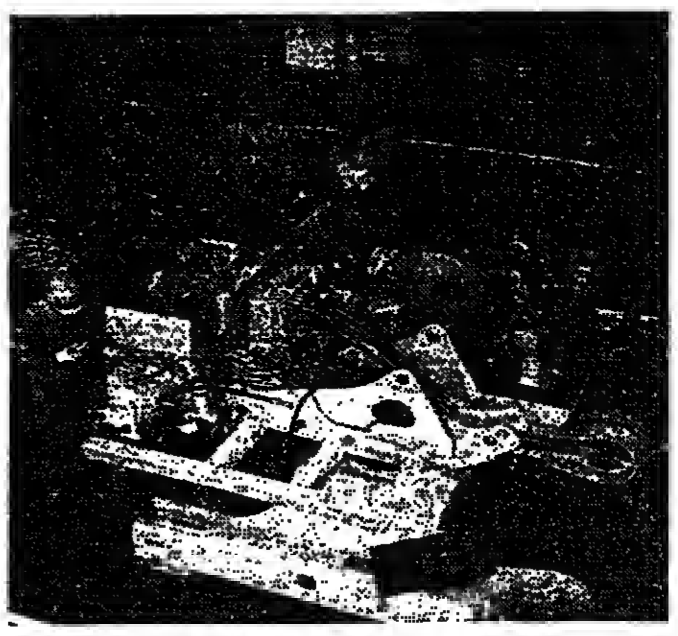


(left) "Danger" warning sign in front of a construction yard at Wajima, on the northern coast; (below) An Ishikawa farmer at work; (right) A seaweed seller in Wajima market



The world's second largest construction equipment maker

How Komatsu keeps fit



The Awazu complex at Comatsu

THE SMALL excavating machines pulled slowly down the assemhly line at the Komatsu plant on the fringe of the city of the same name are evidence that the ambitious, outward-looking company has rebuilt profits on a domestic construction boom that has meant hig sales of small machines.

Excavators and other construction equipment capable of manoeuvring in the limited space of urban Japan have been mnch in demand, as private construction contracts rose abont 35 per cent in the fiscal year to end-March. Meanwhile, the Japanese craving for quality consumer goods is providing opportunities for sales of an uncharacteristic kind.

Dnring tha last week of April, tha world's second largest manufacturer of construction equipment – Caterpillar of the US is still No 1 – announced that it is opening a fitness clnb. A few weeks earlier, the company said that it had signed a contract to be the exclusive importer of a Norwegian hrand of luxury pleasure boats.

In Komatsu, where the company'a two facilities are collectively known as the Awazu complex, 5 per cent of the city's population of around 100,000 works for the company, and about 20 per cent of the population is employed in Komatsu-dependent enterprises. The company provides 65 per cent of the city's corporate tax revenue, and 12 per cent of the corporate tax collected by Ishikawa prefecture.

It is just as well for this company city that the domestic construction machine market is thriving. The plants produced 3,000 units in March compared with 2,000 units in the same month last year and 1,700 in March of 1987. After more than five years of decline, profits were turned around in the first half of last year and continued growth is expected in the coming year.

Net profit in the fiscal year to end-March was expected to be around Y13hn, up from Y9.067bn in the last full accounting year ending in December 1987. Awazu's administration manager, Mr Masahiko Nagai, does not know how long the domestic boom will fuel profits: "This year will be good. We hope that it will continue to be good."

Komatsu Limited was separated from a mining company in 1921, and then opened a plant in Komatsu. in 1943, the company developed a hnlldozer hy attaching a hlade to a tractor, and eight years later the head office was moved to Tokyo, though Komatsu remained the main production centre. The company has five large plants in Japan, with the second largest in Osaka, and others at Oyama, Kawasaki and Himi.

One of the two plants here specialises in medium to small-sized construction equipment, machine tools and laser machines, while the other concentrates on large presses and steel castings. Sales of heavy industrial equipment, such as large and medium-size presses, have been slower to recover, though orders from US car makers were expected to lift results. Overall, construction machinery accounts for 82 per cent of sales and industrial machinery 10 per cent, while the increasingly varied mix of other activities, including silicon wafer production, makes up the remainder.

The company has been perfecting its "flexible management system," leading to a 60% cut in labour requirements, as well as allowing much faster changes in production types

Komatsu has been curbing exports of nnprofitable linea and trimming production lines. Awazu's general affairs manager, Mr Kiyoji Miyazaki, says the company has been perfecting its "flexible management system" which "allows us to change models simply by changing the compnter programme." At present, 10 prodnction lines have been converted to the system, and another 23 are targeted for conversion in the next five years.

On the final assemhly line for small excavators it is still cheaper for the company to use manual labour, but the introduction of the "flexible management system" generally results in a 60 per cent reduction in human labour required, as well as allowing much faster changes in production types.

The reputation of Japanese companies for quick responses to market changes is reflected in a just-finished promotional video. Aware of the importance of environmental issues, Komatsu is determined to prove that it is green.

Instead of concentrating on the destructive capability of the company's equipment, the video draws attention to the problems caused by "excessive urhanisation and destruction of nature," and concludes that "Komatsu and all of humankind" are confronting the question "how can we make the best use of our irreplaceable earth?"

And the company is living up to the reputation of Japanese companies for unusual diversification. In August last year, Komatsu Limited established Komatsu Trading international, which exports mini-hydraulic excavators, and imports a range of foreign goods, therehy doing its bit to reduce the country's trade surplus.

The imports include logging machinery from Canada and backhoe loaders from Italy, as well as the Norwegian pleasnre craft, which the company hopes will become popular as the leisure drive in Japan gathers momentum, and plans to develop more public marinas are completed. The "Xin" fitness club is also an attempt to profit from the leisure boom, and company officials hint that more diversification is on the way.

Mr Nagai, of Awazu, says the most important development in the company's international plans is the refinement of production hases in Europe and the US. Late last year, Komatsu announced that it will invest £7m to expand its factory in Birtley, in north-east England, where it began manufacturing two years ago, and where it is placing hopes for increased penetration of the European construction equipment market.

Mr Nagai says the company is confident that its international sales will improve despite "competition that has been tense for a long time." Indeed, the company has attempted to counter competition with Caterpillar in the US through a joint venture company, Komatsu Dresser, which analysts expect will have over 20 per cent of the US market by the end of September, the first year of the venture.

FUKUI'S TEXTILE INDUSTRY

Shrunk, but still in good shape

WHEN Mr Yoshiharu Sakai, president of Sakase Textile, visited friendly South Korean companies during the yen's upward surge in 1986, he was told by those companies that his help was no longer needed because they knew all of Sakase's and Japan's secrets, and were ready to go it alone.

After a very rough year in 1987, Fukui-based Sakase has reformed its manufacturing style and earnings, and the same South Korean companies now want Mr Sakai to explain how he managed to invigorate his seemingly ill-fated company. Part of the secret is that Sakase went for high-quality products, made fundamental changes to the production process and benefited from a domestic consumer boom.

Last year electrical machinery, at 24.3%, overtook textiles, at 23.8%, as the top production item

"I don't mind showing people around my factory. They can look at the machines and the production, and they still won't fully understand how it is done. The most important part is mental," Mr Sakai says.

Hokuriku has traditionally been a textile-producing region. However, as other Asian countries have embraced the industry, and as the cost of Japanese production has increased in tandem with rising salaries and the appreciating currency, the textile industry has shrunk. In Fukui prefecture, once described as the "kingdom of textiles," electrical machinery overtook textiles as the No 1 production item last year.

In 1984, textiles still accounted for 31.9 per cent of output, while electrical machinery comprised only 13.7 per cent. Last year, electrical machinery had risen to 24.3 per cent of prefectural production, while textiles had fallen to 23.8 per cent.

Mr Michio Shimokawa, the director of the Fukui Prefectural Commerce, Industry and Labour Department, says the decline of textiles has forced a change in industrial infrastructure, but strong domestic growth has allowed other industries to soak up displaced textile workers. The unemployment rate, he says, is "almost nothing," and "the ratio of applicants to jobs is two to one.

"The textile industry started here as a family-based operation. Actually, it was usually the women who did the work, and the labour force still depends on women. We had a lot of two-income families. Now the industry is trying to diversify and to develop high quality products," Mr Shimokawa explains.

(left) Tatsuo Kawada, Seiren's president: "We don't worry about competition from South Korea"

Seiren, which supplies about 40 per cent of interior fabrics for Japanese-made cars, has turned from straight industrial textile dye and process work to products with special finishing and design touches. Those products now comprise about 70 per cent of output compared with 30 per cent two years ago.

Mr Tatsuo Kawada, president of the Fukui-based company, says that the higher quality expected by Japanese consumers forced Seiren to move to higher value-added production to exploit domestic demand: "Our consumers want very high quality and individualised products, so we are not worrying about competition from Taiwan or South Korea."

Mr Kawada says the company has just introduced a production system that will enable it to supply finished product only two hours after receiving an order. Though he reveals that the company is applying to have the process patented, he is reluctant to tell all.

But he says that an order can be accepted for virtually any fabric, and that the company can offer a range of 10,000 colours. The beauty of the system is said to be that raw material stocks at the factory site are kept to a minimum. "Our system helps the designer to have more freedom. It can be used for small lots to give designers flexibility. It means that we eliminate the middle-man function."

The company, which reported a 300 per cent increase in profit last year after a 50 per cent fall the previous year, also has plans to expand its own range of designs because "it is meaningless to stick only to manufacture," says Mr Kawada.

As with most Japanese textile companies, Seiren has had difficulties securing regular supplies of silk because a major supplier, China, has been particularly unpredictable in recent years. Sudden surges in exports have been followed by equally sudden cutbacks, and cotton supplies, too, have been made unpredictable by fluctuating Chinese production.

'In the US and Europe, the price comes first. In the Japanese market, quality comes first, then the price'

Mr Kawada explains that the past decade has been difficult for most Japanese textile companies, and that the workforce in the industry has fallen by 50 per cent in the past 15 years. He cites the example of printing houses in Toyama, another major textile area, which have fallen in number from eight to two in recent years, to show that the transition has not been without pain.

The Sakase company sees the biggest threat to its new-found buoyancy coming from Italy and France, not Taiwan and South Korea. Mr Sakai says that production in South Korea, in particular, is not of a high enough standard to suit the demanding Japanese market.

The company has an interest in a textile joint venture company in Thailand, and is now examining ways of using this project as a base for exports to Europe.

"Our exports to Europe last year were good, but this year they are not so good. I don't quite understand why. Probably, people still have large amounts in stock. Exports from here to Europe will probably fall in the future," Mr Sakai says.

"When you talk about deals in the US and Europe, the price comes first. If the price is lower, then you can expect exports in volume. When you talk about the Japanese market, the quality comes first and then the price."

Yoshiharu Sakai, president of Sakase Textile: "I don't mind showing people around"

Rain will not stop a group of Japanese tourists from visiting Kanazawa

TOURISM

Hot springs, temples — and no traffic jams

THE IMAGE of the Japanese group tourist, the white hat, the camera, and the guide with small flag in hand, has become an international symbol of tourism as an income earner. The same image and same yen motivation has prompted local governments in Japan to upgrade their own attractions and to touch up their profiles with increased advertising.

Japanese workers are supposed to take more time off, and the extra holidays are supposed to be taken outside the annual rush periods of New Year and Golden Week in May, when traffic jams stretching 60 kilometres along freeways are the stuff of news stories for the Tokyo press on a quiet day.

Local governments in Hokuriku are trying to find out exactly what it is that these domestic visitors want to do. A survey conducted by the Prime Minister's office found that 41.3 per cent of tourists surveyed wanted to "look at nature and scenery," 37.3 per cent wanted to "relax at spas and health centres," 17.3 per cent wanted to "eat, drink and buy speciality products," and 16 per cent simply said "driving," which is what most people end up doing any way.

The Prime Minister's office estimated that in 1987 the average Japanese went on 1.28 trips, and spent 2.35 nights away, spending Y5.51 trillion. In the same year, Japanese were estimated to have spent Y1.44 trillion on international tourism.

Hokuriku likes to present itself as a microcosm of true Japan, with its own array of hot springs and temples and scenery, but without the traffic jams. The Hokuriku expressway, which links the three prefectures to the outside world, is crowded only at the toll gates, and just over two hours will get you from Toyama City to Fukui City.

Mr Michio Shimokawa, director of Fukui prefecture's Commerce, Industry and Labour Department, says the region is selling its natural beauty, though the problem is that "there is a lot of competition for natural beauty in Japan. We want more young people to come here. Maybe we will spend more money on targeting specific groups."

One demographic group that appeals to him is the single woman office worker with a large disposable income and few qualms about spending it.

Fukui estimates that it had 22m Japanese visitors last year, while about 30,000 foreigners visited. The prefectural elders lament that a large but unknown percentage of the tourists was just passing through on the way to neighbouring Ishikawa and its varied delights. Kanazawa, the capital of Ishikawa, has the usual big city, bright lights type of diversions, as well as the charm of old Japan, as it was spared during wartime US bombing raids.

In the small seaside resort towns of the Noto Peninsula, visitors from outside the prefecture are told that "you can feel the gentleness, even in its soil"

Japanese have a love of collectivising the national assets, and so Kanazawa's Kenrokuen is recognised as one of the country's "Three Gardens." That claim to national fame explains the cluster of tourist buses at the front gate, and the incessant echo of tour guide talk that is a little out of harmony with the quiet and tranquillity that its feudal founders had in mind.

Wandering through the winding back streets of the temple district is truly peaceful. Each of the temples has a divine purpose, with Kishimojin traditionally frequented by women praying for a child or for a trouble-free birth, and Sanboji popular among sufferers of haemorrhoids, who pray for relief and take home a religious remedy.

Mr Kahei Katta, president of the Kanazawa New Grand Hotel, who is also vice-president of the local Daiwa department store complex and one of the better-known businessmen in the region, says guests at his hotel are 50 per cent tourists and 50 per cent business people, and are 99 per cent Japanese. The most notable change of recent years among customers has been their growing appetite for "expensive food and drink."

Mr Katta says that it is far easier for retailers and hoteliers to guess what foreigners will buy because "they are logical: Japanese are very emotional about their spending and can be very unpredictable. They may spend a lot of money on something that doesn't seem logical."

The Ishikawans are fortunate that the Noto Peninsula falls within their boundary, as the area's small seaside resort towns draw out-of-prefecture visitors, who are told that "you can feel the gentleness of Noto, even in its soil." Towns on the coast have turned to tourism as revenues from agriculture and fishing were insufficient to fund rapid development. At Togi, population 12,500, town officials say that "a new direction had to be taken," so "we started promoting tourism."

Togi's problem is that it is more of a transit lounge than an overnight stay, and travellers spend more of their 2.35 days in Wajima, which has a morning peasant market that also draws clusters of tourist buses. For urban Japanese, it is a rare opportunity to buy straw sandals direct from the maker, and is a particularly poignant reminder that Japan is not the agrarian society it once was.

Small, hunched-over women sit behind stalls decorated with lines of fish or dried seaweed, and it is all very rustic, though, in one corner, a man from NTT, the telephone company, was selling prepaid telephone cards with scenes of Wajima on one side and an expectation that the card should be collected, not used.

In the adjoining prefecture of Toyama, the emphasis of the sales campaign is on the "natural beauty" – the tulips, the long ski season in its share of the Japan alps, and the beaches in summer. Unlike Kanazawa, Toyama city was flattened in 1945, and the temples of old have been replaced by *pachinko* parlours and other similar monuments of a more modern culture.

The collected thoughts of Tadao Yoshida, YKK's president

A 'cycle of goodness' in zippers

FROM THE humble position on the tab of a zipper, the initials YKK have come to dominate Hokuriku. In the streets of Toyama city, lamp posts carry the company name, and at virtually every strategic advertising position one can find YKK amid the jumble of logos and slogans.

While YKK is still on 54 per cent of the world's zippers, the point of much of the advertising is to raise the company's profile as a supplier of building materials, and to prepare the Japanese for the coming of more unlikely products, including coffee from the company's Brazilian plantation.

As the might of Yoshida Kogyo KK is evident in the region, the influence of Mr Tadao Yoshida is obvious at the company's Kurobe plant in Toyama prefecture. Statues of the company president and his advisers, studying a set of plans, dominate the foyer of the main administration building, while visiting journalists are given four volumes of Mr Yoshida's collected thoughts.

Among the writings is an introduction to the "Yoshida method of learning foreign languages", and thoughts on "Napoleon and Other Great Men" and "Moral Education." Mr Yoshida suggests that in an ideal world employees would live and work in the same building, thereby cutting commuting time, and he confesses to the habit of washing his underwear and socks with him while in the bath.

Aluminium products and building materials make up 75% of sales

At the heart of "How YKK Sees and Thinks," as the collected works are called, is the "cycle of goodness," a belief that all who deal with YKK should prosper as the company prospers. In Mr Yoshida's words, there is "goodness through business cycles," and "night and day, the members of YKK all over the world practise the 'Cycle of Goodness' as their basic theory."

The company and Mr Yoshida are fortunate that Japan's domestic consumption boom has kept the goodness going in Hokuriku. Mr Tatsuo Kawahara, YKK's assistant manager of general affairs, admits the sharp appreciation of the yen has caused "a small problem," but it was "not a critical problem." In zipper production, the most serious side-effect has been in sales of zipper-making machines manufactured in Japan, a problem compounded by the company policy of keeping its machine-making in-house.

Tadao Yoshida, YKK president, points the way - a monument to the living at the YKK plant

With operations in 40 countries, diversity has given some refuge from the rising yen; and the broadening of the product base has meant that the company is not over-reliant on a few items. Zippers are the sort of high-volume, low-value item that many Japanese companies left behind long ago.

"YKK's zipper sales now account for only about 25 per cent of Japan revenue, with the other 75 per cent mostly from sales of aluminium products and construction materials." Worldwide, zippers account for 29 per cent of revenue. Yoshida Kogyo K K's profit in the year ended in March last year was Y10.5bn, up from Y7bn. Sales in the fiscal year just ended are expected to be about Y240bn, up from Y216bn.

Imports of cheaper zippers, which Mr Kawahara characterises as being of poorer quality, have marginally reduced the company's dominance of the local zipper market. Five years ago, YKK had 95 per cent of the market, and the company now estimates that the figure is 92 per cent. Meanwhile, the R and D money is still being devoted to making a better zipper.

The company has perfected the side-opening zipper, and continues to experiment with the touch-and-close fastener. Then there is the zip-up shirt, which it has been making for almost two decades. Unfortunately, that appears to be an idea that will be forever ahead of its time. A new line of zip-up business shirts is on display at the Kurobe plant, but even Mr Kawahara admits that most men prefer buttons.

On show at YKK's Kurobe plant in Toyama: the world's biggest zipper, as seen on TV

Aluminium building materials have been a much greater success. The company is selling window sets complete with air conditioners, and in a congenial mix of its traditional line and construction materials, sold large industrial zippers for use in a rail tunnel linking the Japanese islands of Hokkaido and Honshu. The devices allow workmen to check the tunnel's inner workings for bacteria accumulation.

The company is keen to extend its supply of building peripherals, and is working with marble cladding and other natural materials. Its expansion into coffee production is more unusual. Mr Kawahara explains that the company was looking for new business in Brazil: "The Brazilian Government suggested that we start a farm, so we did."

About 60 tonnes of coffee from that farm will be sold in Japan this year, and the company's expanding food interests include investments in rice and dairy production. Food, Mr Kawahara says, is an important part of the "cycle of goodness" philosophy.

"We always say that YKK must be a company that supplies total goodness and a totally good feeling. We always like to make products and systems which people can enjoy. We have always hoped that the zipper will help people to have a good life."

Toyama has reaped the benefit of the success of YKK, although the company's head office is now in Tokyo. Mr Yoshida, whose home town is in the prefecture, established a small slide fastener factory in a Tokyo suburb in 1934, but that operation, then called SSS, was flattened during a bombing run on the city. After the war he opened a factory in his home prefecture and began using the name YKK.

Mr Kawahara explains that prefectural officials had urged Mr Yoshida to establish a plant in the region, and the Kurobe site, which now supports 7,500 staff, allowed enough room for expected expansion. The advantages of Toyama, the assistant manager says, were "lower-priced electric power, a good port, and more importantly, the people. Because this is snow country, they have learned to endure hardship."

The company president's assessment of the area suggests that the site has not been without flaws, including the long distance to main consumer areas and inconvenient transportation. He has urged the prefectural government to establish a "slide fastener section" as recognition of the company's importance to the local economy and of the taxes collected by local authorities.

YKK was ahead of most Japanese companies in offshore expansion, having established a plant in New Zealand in 1959. Mr Yoshida's published thoughts include advice on setting up a plant in England, where a company factory was fully operational in April 1972.

"You would probably want to know about trade union problems," Mr Yoshida writes. "As I had strong faith that employees would understand us if we carry out YKK's basic methods, I established the YKK plant in England with little anxiety ... YKK had strong confidence that when they (workers) struck 10 times in other factories, they (YKK workers) would do so only three or five times."

A flower seller at Wajima Market, Ishikawa

VISITORS' GUIDE

Wander round the back streets — in gumboots

THE THREE prefectures of Hokuriku admit that, in Japanese terms, the region is an out-of-the-way place, and so the push for a Hokuriku bullet train line and a Hokuriku international airport continues.

For now, Toyama and Komatsu, in Ishikawa prefecture, have airports, and Fukui has plans to redevelop a small airport — it is a one-hour flight from Tokyo. Komatsu also handles flights to South Korea, and is the favoured site, at least by Ishikawa and Fukui prefectures, for the new international airport. The Toyama government would prefer an airport a little closer to its own boundaries.

The three prefectural capitals are linked by the Hokuriku Expressway, and the drive from Toyama to Kanazawa is about an hour, with Fukui a further hour away. Allow another 25 minutes from the Kanazawa freeway exits (one to the east of the city and the other to the west) to the commercial district, as the rapid development of recent years has brought traffic congestion.

The Japanese like to treat themselves to a night in a fancy hotel

Each city has the usual range of good quality *hotels*, and any travel agent will be able to book a room. Occupancy rates at the Kanazawa New Grand Hotel, probably the best known in that city, are around 78 per cent. It can get very busy at weekends, partly because Japanese couples like to treat themselves to a night in a fancy hotel.

As for costs, set aside about $130 a night for room alone, while the food can be very expensive or quite reasonable depending on your taste and budget. Smaller noodle houses are clean, and the fare is filling. Japanese restaurants that look expensive probably *are* expensive. It is much the same at bars. If somebody else (for instance, a hostess) is pouring the beer from bottle to glass, expect to pay quite a bit more.

The region is renowned for its winter snows, and for the sprinklers built into the centre of major roads. The water helps to disperse the snow, but creates pools of water that make for good business in gumboots. The sprinklers are a source of controversy and government officials in various cities hint that they will be removed or left idle.

For advice on investment opportunities or company contacts, call the Hokuriku Economic Federation (0762-32-0472), which shares an office and a phone number with the Council for Encouraging International Exchange of Investment for Regional Development of Hokuriku. Each of the prefectures has an office in Tokyo, and departments responsible for matching foreign and local companies. The Hokuriku Economic Federation has contact numbers and names.

After hours, Kanazawa's back streets, purposefully designed to make entry difficult for invaders during its earlier days as a castle town, are worth a wander. Maps are easily bought, and a comprehensive guide and history is "Kanazawa, The Other Side of Japan," written by Ruth Stevens and published by the Kanazawa Tourist Association. The rate of change in the city has left the book behind, but the description of temple origins is interesting.

Fukui has its own temples, including Eiheji, the headquarters of a Japanese sect of Zen Buddhism, and Myotsuji, a three-storied pagoda in Obama City. As with the other two prefectures, Fukui claims that its coastline is just about the most beautiful in the country. Toyama has its tulips, best seen in May, and the Japan alps, an impressive backdrop to life in the cities below.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	52.41	52.96	50.54	...	4.86
Gilts & Fixed Int	6	112.2	112.2	119.1	.....	8.40
High Inc Equity	6	134.90	117.90	146.7	+1.4	4.33
Worldwide Bond	6	192.00	192.0	203.5	-0.3	4.77
Capital Growth						
American Growth	6	179.60	181.7	193.2	-0.1	1.28
Asian Pacific	6	102.00	104.20	110.8	-1.5	0.63
Assets & Earnings	6	162.20	162.2	173.5	+1.0	1.50
Capital Reserve Acc	0	84.95	84.95	85.14	+0.09	4.70
Comdty & Energy	6	99.75	99.75	106.7	+0.5	0.90
1992 Enterprise	6	58.21	59.27	63.05	-0.63	2.85
European Capital	6	81.60	81.60	87.34	+0.04	0.86
General	6	179.4	179.4	191.9	+1.5	2.34
Japan	6	169.4	111.3	110.3	+0.5	0.00
Mastertrust	6	85.26	85.26	91.19	+0.23	1.57
UK Growth Acc	6	204.7	204.7	219.0	+0.9	1.03
UK Growth Dist	6	136.5	136.5	146.00	+0.6	1.54
US Emerging Cos	6	53.41	55.00	58.59	+0.11	0.00
Income & Growth	6	298.3	298.3	319.1	+4.5	3.21
Ethical	6	49.85	50.99	54.34	+0.32	2.30

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5	30.09	30.09xd	32.12	-	3.59
European	5¼	00.11	00.22	64.29	+0.23	0.00
European Income	5¼	59.69	59.69xd	63.72	+0.13	3.48
Exempt	1	818.5	818.5	854.3	+8.10	2.20
Extra Income	5	43.89	43.89	46.86	+0.44	4.91
F East Emerg Econs	5¼	43.90	44.31	47.46	+1.02	0.94
Fund Inv Tst	5	124.0	124.0xd	132.4	+0.60	2.53
Do Accum	5	193.2	193.2	206.2	+1.10	2.54
Gilt & Fixed Int	5¼	21.90	21.90	23.46	+0.02	10.19
Income & Growth	5¼	74.46	74.46xd	79.48	+0.95	4.11
Intl Income	5¼	63.05	62.89xd	67.10	-0.54	5.39
Japan	5¼	185.6	185.6	198.1	+0.10	0.00
Pacific	5¼	344.3	346.2xd	370.8	+0.50	0.90
Secure Income	5	201.4	201.4xd	215.0	+1.60	6.15
Sentinel Spec Sits	5	277.4	277.4xd	296.2	+1.90	1.73
Smaller Companies	5¼	60.95	00.95	65.06	+0.17	2.46
Special Situations	5¼	72.15	72.15xd	77.02	+0.66	1.60

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD						01-405 8331
Comtd & Equity	5	63.42	64.23	70.45	6.82	40399
European	5	63.44	63.76	67.84	0.10	40303
Far Eastern	5	62.53	62.75	66.76	0.75	40304
Growth Inc	5	90.33	93.67	99.64	1.36	40400
Growth Acc	5	90.33	93.67	99.64	1.36	—
Income Inc	5	85.09	86.75	92.29	5.30	40401
Income Acc	5	85.09	86.75	92.29	5.30	—
Property Share	5	55.89	55.89	59.55	0.99	40402
Smaller Co's	5	58.87	62.15	66.12	1.46	40403
Formerly RMC Trust Managers Ltd						
Nth American	5	59.85	59.85	64.01	1.67	40209
International	5	46.33	46.33	49.54	1.45	40210
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Blomfield St, London EC2M 7AY						01-588 0592
Growth	5	103.53	103.33	108.33	3.92	41604
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield						0484 602250
Yorkshire General	5¼	64.62	67.08	71.36	2.64	41605
YUTM UK Equity Inc Tst	5¼	61.29	63.38	67.42	4.53	41606
YUTM Intl Growth Tst	5¼	49.81	49.81	53.18	1.03	41155

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd				
Jap'l Expl May 17	480.4	498.6	—	40105
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Inv Fund Apr 30	507.65		4.67	40251
Fxd Int Sec Apr 30	141.15		10.13	40252
Deposit Apr 30	100.00		12.45	40253
Charities Official Invest. Fund‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Income Apr 30	430.64		4.97	40258
Accum Apr 30	1579.44		—	40259
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American May 12	137.8	141.6	1.60	40368
Managed May 12	131.9	136.8	2.10	40369
Japan May 18	140.6	144.5	0.14	40370
Pacific May 19	487.5	500.9	0.20	40371
Sm Jap Cos May 19	264.6	271.9	0.10	40372
Fidelity Investment Services Ltd				
Mngd Pens P'folio	123.8	127.0	1.44	—
Robert Fleming Asset Mngmt Ltd				
Am Exempt May 16	£391.75	397.49	1.46	40456
Gen Exempt May 16	£125.78	128.45	3.63	40457
Jap Exempt May 16	£660.82	673.95	0.30	40458
Intntl Exempt May 16	£114.62	117.50	3.86	—
O seas Index Exempt May 12	£108.10	110.54	1.96	—
Foreign & Colonial Pens Mngt Ltd				

	Mid Price	Offer Price	Yield Gross	City-line
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Fixed Int. Dep. Acc.	259.4	273.1	—	41723
Equity Acc.	854.7	899.7	—	41724
Property Acc.	490.4	515.2	—	41725
Far East Acc.	209.5	220.6	—	41726
European Acc.	21.6	22.8	—	41727
Managed Acc.	672.9	708.4	—	41728
Managed Cap.	382.4	402.6	—	41729
O'seas Earnings Acc.	569.4	599.4	—	41730
Gilt Edged Acc.	313.9	330.5	—	41731
American Equity Acc.	448.2	471.8	—	41732
American Man. Acc.	208.1	219.1	—	41733
American Prop Acc.	145.3	153.0	—	41734
Pen. F.I. Dep. Cap.	285.8	300.9	—	41735
Pen. F.I. Dep. Acc.	488.4	514.2	—	41736
Pen. Prop. Cap.	572.5	602.7	—	41737
Pen. Prop. Acc.	1080.3	1137.2	—	41738
Pen. Man. Cap.	829.3	873.0	—	41739
Pen. Man. Acc.	1564.3	1646.7	—	41740
Pen. Gilt Edg. Cap.	316.3	333.0	—	41741
Pen. Gilt Edg. Acc.	497.5	523.2	—	41742
Pen. Eq. Cap.	1365.7	1437.6	—	41743
Pen. Eq. Acc.	1952.5	2055.3	—	41744
Pen. Am. Eq Cap.	148.7	156.6	—	41745
Pen. Am. Eq Acc.	179.1	188.6	—	41746
Pen. Far East Cap.	249.4	262.6	—	41747
Pen. Far East Acc.	300.6	316.5	—	41748
Pen. Euro Cap.	24.6	25.9	—	41749
Pen. Euro. Acc.	24.6	28.1	—	41750
Pen. B.S. Acc.	534.7	561.5	—	41751
Pen. B.S. Cap.	321.7	337.8	—	41752
Pen. D.A.F. Acc.	374.7	374.7	—	41753
Pen. D.A.F. Cap.	253.0	253.0	—	41754
Pen. Mortgage Cap.	144.0	151.6	—	41755
Pen. Mortgage Acc.	173.5	182.7	—	41756
Baring Funds				
Pen Equ Cap.	28.6	30.2	—	46176
Pen Equ Acc.	29.8	31.4	—	46177
Pen Am Eq Cap.	32.2	33.9	—	46178
Pen Am Eq Acc.	33.4	35.2	—	46179
Pen Far East Cap.	31.4	33.1	—	46180
Pen Far East Acc.	32.6	34.4	—	46181
Pen Euro Cap.	33.1	34.9	—	46182
Pen Euro Acc.	34.4	36.3	—	46183
Stonex Capel Funds				
Pen Equ Cap.	28.9	30.5	—	46184
Pen Equ Acc.	30.1	31.7	—	46185
Pen Am Eq Cap.	31.1	32.8	—	46186
Pen Am Eq Acc.	32.3	34.1	—	46187
Pen Far East Cap.	32.0	33.7	—	46188
Pen Far East Acc.	33.2	35.0	—	46189
Pen Euro Cap.	29.8	31.4	—	46190
Pen Euro Acc.	30.9	32.6	—	46191
Ambassador Life Assce. Co Ltd				
80 Holdenhurst Rd, Bournemouth				0202 292345

Continued on next page

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Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	126 0	133 0	–	43285
Building Soc. Fd	170 0	179 0	–	43286
Balanced	284 0	299 0	–	43287
European	164 0	173 0	–	43289
G7 Managed	174 0	184 0	–	43290
Gartmore Mngd	116 0	123 0	–	43291
German	113 0	119 0	–	43292
Gilt	181.8	141.0	–	43293
Global	48 0	51.0	–	–
High Inc	122 0	129 0	–	43294
International Equity	141.0	202 0	–	43295
Japan	245 0	258.0	–	43296
Managed	64 0	68.0	–	43297
Property	279.0	294.0	–	43298
R. W. Imperial Gold	143 0	131 0	–	43299
UK Equity	383 0	404 0	–	43300
Pension Funds				
American	153 0	162.0	–	43301
Building Soc. Fd	170 0	179 0	–	43302
Balanced	214.8	231.0	–	43303
European	161 0	170 0	–	43305
German	102.0	108.0	–	43308
Gilt	155 0	164 0	–	43309
International Equity	161 0	149 0	–	43310
Japan	138 0	146 0	–	43311
Managed	65.0	69.0	–	43312
Property	215 0	227.0	–	43313
UK Equity	343 0	362.8	–	43314

Prolific Life & Pensions Ltd

Stramongate, Kendall Cumbria LA9 4SE 0539 33733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Balanced Grth Mngd	597 5	629 7	–	43315
Adventurous Mngd	127.3	134.2	–	46402
Secure Mngd	108 1	114 0	–	46403
Cash Fd	231 4	244 4	–	43316
Property Fund	285.1	303 3	–	43317
Equity Fund	668 1	710 8	–	43318
Fxd Int Fund	293 5	311 3	–	43319
International	302.2	321 5	–	43320
High Income	485.0	516.0	–	43321
Far East	448 6	472.8	–	43322
North American	275 4	290 3	–	43323
Special Sits	632.4	666 4	–	43324
Technology	253 8	270 0	–	43325
Extra Inc Fd	289 4	308 5	–	43326
Convertible & Gilt Fd	149 0	158 6	–	43327
American Income	128 3	136.5	–	43328
Gilt Fund 20	298 6	317.7	–	43329

Prudential Pensions Limited

Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	Yield Gross	City-line
Discretionary May 3	£152.21	157.48	–	43539
Equity May 3	£166.89	172.95	–	43540
International May 3	£25 14	25.88	–	43541
Intl Bond May 3	£11 71	11 86	–	43542
Fixed Int May 3	£72.15	75 12	–	43543
Index Linked May 3	£60 62	61 38	–	43544
Property May 3	£107.52	113 98	–	43545
Cash May 3	£20 6364	20 6364	–	43546
Pru-Linked Retirement Plan				
Managed May 9	370 1	393.9	–	43547
Cash May 9	194 1	202.2	–	43548
Prudential Pensions Investment Account				
Pens Mngd May 17	155 8	164.1	–	43549
Pens UK Eq May 17	304.9	321.0	–	43550
Pens Intl May 17	182.9	192.6	–	43551
Pens Fixed May 17	165 3	174.1	–	43552
Pens Index Lk May 17	155 0	163.2	–	43553
Pens Cash May 17	126.9	133.6	–	43554

Regency Life Assurance Co Ltd

Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	Yield Gross	City-line
Aggressive Ptflio Fd	119 4	126 2	–	43555
Balanced Ptflio Fd	315.4	331 9	–	43556
Cautious Ptflio Fd	122.0	128.4	–	43557
Elite Fund	110.6	116.4	–	43558
European Fund	80 5	84 7	–	43559
Far East Fund	110.0	116.6	–	43560
Fixed Interest Fund	242.3	255 0	–	43561
International Fund	261 2	274.4	–	43562
Money Fund	175 6	184.8	–	43563
N. American Fd	116.0	122.0	–	43564
Property Fund	421 7	443 8	–	43565
UK Equity Fd	389.2	409.6	–	43566
A.I.M. Brewin Dipl Fd	94.9	99.9	–	43567
Swiss Select Invs	110.1	115 9	–	43568
Chart Safety First Bd	109 2	114.9	–	43569
Exec Master Fd	95 7	100.7	–	43571
Hardwick Growth Fd	109.3	115 1	–	43572
Bentley Halo LR Port	99.0	105.1	–	43573
Milbourne Spec Port	113 9	114 9	–	43574
Swiss Global Fd	110 6	116 4	–	46120
Hardwick Tst Fd	72 0	75 8	–	–

All funds have equivalent pension fund. Series 2 prices above. Others available from Regency Life.

Reliance Mutual

Reliance House, Tunbridge Wells, Kent 0892 510033

Bamford Brandt Guernsey Mngt. Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Tech and Comms	£10.61	11.26	–	44712
Pacific Basin Fd	$93 97	99.85	–	44713
Western European	$16.61	17.80	–	44714

The Bangkok Fund

Merrill Lynch Intl Capital Mngmt (Gy) Ltd

May 17 Nav US$45.05 Baht (1,158.71)(for info only)

Baring Fund Managers (Guernsey) Ltd

Baring Currency Fund Ltd

	Bid Price	Offer Price	Yield Gross	City-line
US Dollar		$22.94	–	44754
Sterling		£14.59	–	44755
Deutschemark		DM34.34	–	44756
Japanese Yen		Y3507	–	44757
Managed		$32.43	–	44758

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

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FT UNIT TRUST INFORMATION SERVICE

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
[illegible]	Treas 10½pc 1989	99 15/32xd	–	8.5	14Dec 14Jun	1287
[illegible]	Exch. 10pc 1989	99½	12.47	28.12	1Feb 1Aug	1250
[illegible]	Exch 11pc 1989	99¼	12.32	20.2	29 Mar 29 Sep	1256
60	Treas 5pc 1986–89	98	10.23	9.3	15 Apr 15 Oct	1329
[illegible]	Treas 10¼pcCv '89	99 13/16	11.09	10.4	15 May 15 Nov	1255
[illegible]	Treas 13pc 1990‡‡	100½	12.11	9.12	15 Jul 15 Jan	1300
[illegible]	Treas 11pc 1990‡‡	99¼	12.05	6.1	12 Aug 12 Feb	1257
[illegible]	Treas. 12½pc 1990	100¼	12.08	13.2	22 Sep 22 Mar	1262
[illegible]	Treas. 3pc 1990	94⅛	9.61	3.4	8 Nov 8 May	1325
[illegible]	Treas 8¼pc 1987–90‡‡	96¾xd	11.60	9.5	15 Dec 15 Jun	1340
[illegible]	Treas. 8pc Cv 1990 ‡‡	96⅝	11.18	12.12	16Jul 16Jan	4680
[illegible]	Treas. 10pcCv 1990	97	11.83	20.3	25 Apr 25 Oct	1285
[illegible]	Exch 2½pc 1990	90 [illegible]	9.17	17.4	22 May 22 Nov	1270
[illegible]	Treas 11¾pc 1991	100¼	11.69	5.12	10 Jul 10 Jan	1292
[illegible]	Funding 5¾pc '87–91‡‡	92	10.49	1.3	5Oct 5Apr	1275
[illegible]	Treas. 3pc 1991	89	8.72	6.4	13 Nov 13 May	1326
[illegible]	Treas 10pc Cv '91 ‡‡	97	11.39	6.12	12Jan 12Jul	1286
[illegible]	Exch. 11pc 1991	99¼	11.44	20.3	25Apr 25Oct	1258
[illegible]	Treas. 8pc 1991	92½xd	11.38	4.5	10Jun 10Dec	1335
[illegible]	Treas 12¾pc 1992‡‡	103	11.07	16.12	22Jul 22Jan	1297
[illegible]	Treas 10pc 1992	97⅝	11.11	16.1	21Aug 21Feb	1283
[illegible]	Treas. 8pc 1992 ‡‡	92	11.11	7.3	13Oct 13Apr	1337
[illegible]	Treas 10½pc Cv 1992‡‡	98	11.07	31.3	7 Nov 7 May	1289
[illegible]	Treas. 3pc 1992	84 [illegible]xd	9.03	5.5	11Dec 11Jun	1328
[illegible]	Exch. 12¼pc '92	103⅛	11.06	19.1	25 Feb 25 Aug	1265
[illegible]	Exch 13½pc 1992	106	10.98	13.2	22Mar 22Sep	1266
[illegible]	Treas 8¾pc 1993	92	10.83	17.1	18Aug 18Feb	–
[illegible]	Treas 10pc 1993‡‡	97	10.70	9.3	15Oct 15Apr	1279
[illegible]	Treas 12½pc 1993‡‡	105	10.78	8.12	14Jan 14Jul	1296
[illegible]	Funding 6pc 1993‡‡	86¼	9.98	6.2	15Mar 15Sep	1276
[illegible]	Treas 13¾pc 1993‡‡	110½xd	10.72	17.4	23May 23Nov	1304
[illegible]	Treas. 8½pc 1994	91⅞	10.74	28.12	3Aug 3Feb	–
[illegible]	Treas 14½pc 1994‡‡	114	10.53	23.1	1 Sep 1 Mar	1307
[illegible]	Exch 13½pc 1994	110	10.75	21.3	27Oct 27Apr	1267

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,400	Treas. 10pc Ln. 1994‡‡	97 [illegible]xd	10.56	3.5	9Dec 9Jun	1284
1,550	Exch. 12½pc 1994	106⅞	10.73	16.1	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	93	10.51	10.4	17May 17Nov	1345
2,350	Treas 12pc 1995	105	10.70	19.12	25Jul 25Jan	1294
229	Exch 3pc Gas 90–95	77½	7.79	28.3	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	98¾	10.58	15.12	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995‡‡	110	10.55	10.4	15May 15Nov	1298
900	Treas. 14pc '96	115⅞	10.68	16.12	22Jul 22Jan	1305
750	Treas. 9pc 1992–96‡‡	94⅛	10.18	6.2	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996‡‡	122⅜	10.59	28.3	3Nov 3May	1309
800	Exch 13¼pc 1996‡‡	115	10.55	10.4	15Nov 15May	1268
1,109	Conversion 10pc 1996	97	10.40	10.4	15May 15Nov	1240
1,500	Treas 13¼pc 1997‡‡	114⅛	10.48	16.12	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	100	10.41	16.1	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997‡‡	92	10.18	23.1	1Mar 1Sep	1341
1,000	Exch 15pc 1997	124	10.60	21.3	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	97	10.27	13.12	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995–98‡‡	81	9.85	28.3	1Nov 1May	1331
1,100	Treas. 15½pc '98‡‡	129	10.42	21.2	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	109⅛xd	10.36	13.4	20May 20Nov	1259
1,250	Treas 9½pc 1999‡‡	96	10.02	9.12	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	111¼	10.36	17.2	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	101½	10.25	12.4	19Nov 19May	1288
1,548	Conversion 10¼pc 1999	100⅛xd	10.22	17.4	22May 22Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	90	9.94	22.12	28Jan 28Jul	1338
1,554	Conversion 9pc 2000‡‡	93	9.98	25.1	3Sep 3Mar	1244
1,817	Treas. 13pc 2000	117	10.34	8.12	14Jan 14Jul	1299
1,050	Treas 10pc 2001	99¼	10.04	20.1	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98–01	119 [illegible]xd	10.53	17.4	22Nov 22May	1306
802	Conversion 9¾pc 2001	98⅝	9.99	4.1	10Feb 10Aug	1248
1,600	Exch. 12pc '99–02	109⅝	10.38	16.12	22Jul 22Jan	1261
716	Conversion 10pc 2002	100⅝	9.90	6.3	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	99	9.87	23.1	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	94	9.80	12.4	19May 19Nov	1272
1,800	Treas. 13¾pc 2000–03	122	10.37	19.12	25Jan 25Jul	1303
1,000	Treas 10pc 2003	101	9.76	30.1	8 Mar 8 Sep	1281
1,900	Treas. 11½pc 2001–04	109	10.16	10.2	19Sep 19Mar	1290
900	Treas. 10pc 2004	102	9.67	11.4	18 Nov 18 May	1282

BRITISH FUNDS—Contd

Over Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
443	Funding 3½pc '99–04	57¼	8.55	8.12	14Jan 14Jul	1274
1,362	Conversion 9½pc 2004	99¼	9.59	20.3	25 Apr 25 Oct	1246
1,881	Conversion 9½pc 2005	99	9.56	13.3	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	107	9.55	13.2	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003–05	120 [illegible]xd	9.78	14.4	21May 21Nov	1295
1,800	Treas. 8pc 2002–06‡‡	87½	9.48	1.3	5Apr 5Oct	1334
702	Conversion 9¾pc 2006	102⅛	9.48	10.4	15May 15Nov	1249
3,150	Treas 11¾pc 2003–07	114	9.78	16.12	22Jul 22Jan	1293
1,446	Treas 8½pc 2007 ‡‡	92	9.32	12.12	16Jan 16Jul	1339
1,250	Treas. 13½pc '04–08	129⅛	9.71	17.2	26Sep 26Mar	1301
1,800	Treas. 9pc 2008 ‡‡	97	9.26	7.3	13Apr 13Oct	1343
1,000	Treas 8pc 2009	88⅝	9.19	16.2	25Mar 25Sep	1336
369	Conv 9pc Ln 2011 ‡‡	98	9.16	6.12	12Jan 12Jul	1245
1,000	Treas. 5½pc 2008–12‡‡	66	8.97	1.2	10Mar 10Sep	1330
700	Treas. 7¾pc 2012–15‡‡	86⅝	9.08	20.1	26Jul 26Jan	1332
1,000	Exch. 12pc '13–'17	127½xd	9.16	8.5	12Jun 12Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	43¼	–	28.12	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	38 [illegible]xd	–	25.4	1Jun 1Dec	1352
140	Conv. 3½pc '61 Aft	66⅞	–	23.2	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	35	–	1.3	5Apr 5Oct	1324
276	Consols 2½pc	27	–	1.3	5Ja Ap Jul O	1238
475	Treas. 2½pc	27	–	23.2	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock	Price £ (b)	Red. Yld. **	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(84.6)	129½	2.26	19.12	25 Jul 25 Jan	1311
650	Do. 2pc '92‡‡(97.8)	107	3.89	14.2	23Mar 23Sep	1312
400	Do. 2[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1313
1,000	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
900	Do 2[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
800	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,200	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
950	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,350	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,100	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,700	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,400	Do. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
900	Do. 2[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) [illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988–92	88	11.90	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Asstd.	206	–	–	1Apr 1Oct	–
4	Do. 4½pc87–92 Asstd.	84½xd	9.33	9.1	7Feb 7Aug	–

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
20	N'wide Anglia 8[illegible]pc 30.5.89	99⅞	13.14	24.10	30May 23Nov	–
20	Do. 9[illegible]pc 26.6.89	99⅝	13.07	21.11	26June 20Dec	–
20	Do. 10[illegible]pc 17.7.89	99	11.04	12.12	11Jan 17Jly	–
20	Do. 11[illegible]pc 7.8.89	99	11.05	3.1	1Feb 7Aug	–
20	Do. 11[illegible]pc 29.8.89	99	13.11	–	2Feb 29Aug	–
20	Do. 12¼pc 18.9.89	99⅝	13.09	10.2	12Mar 18Sep	–
20	Do. 12[illegible]pc 2.10.89	99	13.08	27.2	26Mar 20Oct	–
20	Do. 11[illegible]pc 6.11.89	99 [illegible]xd	13.12	31.3	30Apr 6Nov	–
20	Do. 12[illegible]pc 4.12.89	99	13.12	28.4	28May 4Dec	–
20	Do. 12[illegible]pc 2.1.90	99¼	13.12	–	2Jan 28Jun	–
20	Do. 12[illegible]pc 29.1.90	99	13.10	9.2	29Jan 23Jly	–
–	Do. 12[illegible]pc 26.2.90	99⅝	13.08	–	26Feb 20Aug	–
60	Do. 3⅞pcIL Ln 2021	101xd	4.45	23.1	30Jan 31Jul	3465

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
3	Agric. Mt. 5pc '59–89	99	–	1.12	1Jan 1July	1532
25	Met. Wtr. 3pc '8'	46xd	10.41	1.2	1Mar 1Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	40	3.50	8.75	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	40xd	3	7.50	1.2	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	40xd	3	5.00	3.4	1Apr 1Oct	2761
1	Hung. '24 Ass.	80	2.75	3.57	3.5	1May	2935
40	Hydro Quebec 15pc 2011	133¼	15.00	10.92	27.10	31May 30Nov	–
30	Iceland 14½pc Ln 2016	123 [illegible]xd	14.50	11.59	29.12	31Jan 31Jul	–
30	Ireland 9¼pc '91–96	94½xd	9.75	10.85	15.2	1Mar 1Sep	3002

AMERICANS

[illegible]

Continued on next page

Money Market Bank Accounts

[illegible]

Money Market Trust Funds

[illegible]

LONDON SHARE SERVICE

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AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
1,153.7	Dana Corp. $1	25¼	$1.60	3.6	28.2	Nr Ja Se De	2306
313.9	Data General	11⅞	–	–	–	–	–
6,224.6	Dun & Bradstreet $1	33½	$2.00	3.5	13.2	Mr Je Sp Dc	–
1,601.2	Eaton Corpn. 50c	37½	$2.00	3.1	1.2	F My Au N	2410
660.7	Echlin Inc.	11⅝	70c	3.7	3.4	Ja Ap Jl Oct	–
2,578.9	FPL Group 1c	19⅞	$2.20	6.6	23.11	Mr Je Sp Dec	–
1b,194.8	Ford Motor $1	38¼	$3.00	5.7	27.4	Mar Jun S D	2615
709.2	GATX 62½c	37½	$2.00	3.1	7.3	Mar Jun S D	2662
29,977.6	Gen. Elect. 63c	32¾	$1.64	2.9	2.3	Jo Ap Jly O	2675
–	General Host Corp $1	5½	28c	3.2	13.12	–	–
2,854.9	Gillette $1	24⅝	96c	2.3	27.1	Mar Jun S D	2695
265.9	Gt Am First Svgs Bk $1	8⅛	60c	4.3	28.10	Fb My Au Nv	–

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

حكمة من الأصل

LONDON SHARE SERVICE

● Companies wishing to communicate latest information to shareholders should ring the FT Investorline demonstration number on 0836 435500. (Calls charged at 38p per minute peak and 25p off peak inc VAT), or call 01-925 2323 for further details.

INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING—Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
4.12	♦Ayer Hitam SM1	45	£053.3c	‡	9.3	Apr. Nov.	1714
12.0	Gopeng Berhad M$0.50	75	Q10c	2.9	13.3	–	2726
6.37	Jamar 12½p	130	–	–	6.86	–	3022
330.2	Malaysia Mng. 10c.	79	Q5c	1.4	17.4	Dec Aug	3272
18.2	Petaling SM1	180	Q87c	10.9	12.12	December	3644
4.27	Sungei Besi SM1	125	Q70c	12.7	12.12	September	4140
1.34	Tanjong 15p	90	–	–	6.81	–	–

Miscellaneous

THIRD MARKET

NOTES

Not officially UK listed; dealings permitted under rule 535(4)(a)

USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.

Not officially listed.

Price at time of suspension

Indicated dividend after pending scrip and/or rights issue.

Merger bid or reorganisation in progress

Not comparable

Same interim; reduced final and/or reduced earnings indicated

§ Forecast dividend.

Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.

Cover does not allow for shares which may also rank for dividend at a future date.

No par value

B.Fr. Belgian Francs. Fr. French Francs. Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	101xd	+1
Craig & Rose £1	720	......
Finlay Pkg 5p	91	......
Holt (Jos) 25p	1295xd	−18

IRISH

Cap 8½% Ln 1991	£93	......
9pc Cap Ln. 1996	£97¼	......
Fin. 13% 97/02	£116	......
Arnotts	452	+2
Carroll (P.J.)	151	+1
Hall (R. & H.)	155	......
Heiton Hldgs	76	−2
Irish Ropes	195	......
United Drug	140	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit Telecom	11
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	25
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	95
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	83
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	33
Morgan Grenfell	28
NEI	12
Nat West Bk	43
P & O Dfd	48
Plessey	11
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	0
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50

Oils

Brit Petroleum	21
Do. Int. Certs	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	30
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Australian dollar stays out of favour

THE AUSTRALIAN dollar continues to attract unfavourable attention. Its recent weakness has been partly the result of strong demand for the US dollar, but last week the Australian unit fell against the relatively weak D-Mark to around DM1.50 from DM1.5225 and it also lost ground to sterling.

Last Tuesday it was announced that the April Australian trade current account deficit fell to A$1.19bn from A$1.65bn. This was much in line with expectations but it did not help the Australian dollar. It fell steadily from 79.35 US cents at the end of the previous week through various technical support levels to a 13-month low of 75.50 cents on Thursday, before rallying slightly on Friday to finish the week slightly above 76 cents. And this was in spite of rising Australian interest rates and support for the local currency by the Australian Reserve Bank.

ANZ McCaughan pointed out that three of the worst five current account deficits in Australia's history have come within the last six months and the March figure of A$1.65bn was had enough to knock nearly 10 per cent off the value of the local currency; it lost almost another 5 per cent against the US dollar last week. According to ANZ McCaughan, it was not the size of the April deficit - the 12th successive shortfall of more than A$1bn - that disappointed the market, but because there is no sign of an underlying improvement. The deficit for the first 10 months of the financial year was A$14.04bn, compared with the Government's Budget forecast last August of A$9.5bn.

Mr Paul Keating, the Australian Treasurer, has admitted that high current account deficits are likely to continue for some time, putting further pressure on the local dollar. Mr Bob Hawke, the Australian Prime Minister, said monetary policy will remain tight to restrain domestic demand, despite the damaging political effects of high interest rates. He added: "The people's interests would be devastated if we didn't take steps to restrain demand. The Australian dollar would collapse, interest rates would go through the roof and the economy would collapse." Mr Hawke is faced with considerable economic problems as time runs out for him to call an election. He has until July next year, but Mr Chris Tinker, at UBS Phillips and Drew, believes that Mr Hawke's Labour government will put its popularity to the test fairly soon. He expects there to be an election early in the third quarter of this year.

There is now some doubt about just how low the Australian dollar will go. Mr Tinker said political uncertainty over the timing of the election is a reason behind the very uneasy outlook for the currency. He believes the Labour Party has yet to shake off the general impression that it is under the thumb of the unions and says there is increasing concern that electoral bribes, in the form of tax cuts, will further damage the economy. As he sees it, the prospects for the Australian dollar are grim. There is some strong support for this notion; according to a survey by Reuters among Australian economists, it is not out of the question that the currency could hit 70.00 US cents in the next few months.

However, Mr Ian Harnett, at ANZ McCaughan, is not convinced the Australian dollar will go much lower than 76.00 cents, although he added that much will depend on the performance of the US dollar. ANZ McCaughan believes the US currency will weaken in the second half of the year and this will prevent any further sharp fall in the value of the Australian unit.

Colin Millham

EURO-CURRENCY INTEREST RATES

May.19	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12⅛-12	12⅛-12⅛	12⅜-12⅛	12⁹⁄₁₆-12⁷⁄₁₆	12¹¹⁄₁₆-12⁹⁄₁₆	12¹³⁄₁₆-12¹¹⁄₁₆
US Dollar	9¼-9⅛	9¼-9⅛	9¼-9⅛	9⁵⁄₁₆-9³⁄₁₆	9⁵⁄₁₆-9³⁄₁₆	9⁵⁄₁₆-9³⁄₁₆
Can. Dollar	12½-12¼	12⅜-12⅛	12¼-12	12¼-12	11⅞-11⅝	11¾-11½
D Guilder	7-6¾	7-6¾	7¼-7⅛	7½-7⅜	7⅝-7½	7⅝-7½
Sw. Franc	7-6¾	7¼-7	7½-7⅜	7½-7⅜	7⅝-7½	7⅝-7½
Deutschmark	5¹³⁄₁₆-5¹¹⁄₁₆	6⅜-6¼	6⅝-6½	6¹³⁄₁₆-6¹¹⁄₁₆	7⅛-7	7⅜-7¼
Fr. Franc	8½-8⅜	8⅝-8½	8¹³⁄₁₆-8¹¹⁄₁₆	8¹⁵⁄₁₆-8¹³⁄₁₆	9⅛-9	9⅛-9
Italian Lire	11-9	12½-11½	12¼-11¼	12¼-11¼	12¼-11¼	12¼-11¾
B. Fr. (Fin)	8-7¾	8-7¾	8¼-8⅛	8⅜-8¼	8⅝-8½	8⅝-8½
B. Fr. (Con)	7¾-7½	8-7½	8⅛-8	8⅜-8¼	8⅝-8¼	8⅝-8⅜
Yen	4¹³⁄₁₆-4¹¹⁄₁₆	4¾-4⅝	4⅞-4¾	5-4⅞	5⅜-5¼	5⅝-5½
D. Krone	8⅝-8½	8⅝-8½	9-8¾	9⅛-9⅛	9½-9⅜	9¾-9⅝
Asian $Sing	9¼-9⅛	9¼-9⅛	9¼-9⅛	9⅜-9¼	9⅝-9½	9¾-9⅝

Long term Eurodollars: two years 9⅝-9½ per cent; three years 9⅝-9½ per cent; four years 9⅝-9½ per cent; five years 9⅝-9½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

May.19	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.619	3.188	224.8	10.80	2.846	3.593	2323	1.927	66.80
$	0.618	1	1.969	138.9	6.671	1.757	2.219	1435	1.190	41.26
DM	0.314	0.508	1	70.51	3.388	0.892	1.127	728.7	0.604	20.95
YEN	4.448	7.202	14.18	1000.	48.04	12.66	15.98	10334	8.572	297.2
F Fr.	0.926	1.499	2.952	208.1	10.	2.634	3.327	2151	1.784	61.85
S Fr.	0.351	0.569	1.121	79.02	3.796	1	1.263	816.5	0.677	23.48
H Fl.	0.278	0.451	0.887	62.57	3.006	0.792	1	646.5	0.536	18.59
Lira	0.430	0.697	1.372	96.77	4.649	1.225	1.547	1000.	0.830	28.76
C $	0.519	0.840	1.654	116.7	5.605	1.476	1.865	1206	1	34.67
B Fr.	1.497	2.424	4.772	336.5	16.17	4.259	5.379	3478	2.885	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

London unmoved by bad inflation data

LACK OF reaction on the London money market, to last week's economic news, was little short of amazing, according to Mr Nigel Richardson, of S.G. Warhurg Securities. This included the announcement that annual UK inflation in April rose to 8.0 per cent from 7.9 per cent, instead of falling to 7.7 per cent as widely forecast.

UK clearing bank base lending rate
13 per cent
from November 25

The leak of the figure to the BBC on Thursday evening was seen as a move to soften the markets before the official announcement, but according to Mr Richardson this had little impact. Dealers tended to dnuht the truth nf the BBC story, even thongh this was not the first time the correct figure on the monthly retail price index has been leaked.

Three-month sterling was offered at 12¾ per cent on Thursday night. It remained at 12¾ per cent after the official RPI announcement, staying unchanged at Friday's close.

Mr Richardson says this was partly hecause hopes have grown of lower US interest rates and also because sterling has been very steady against the D-Mark. He does not believe this will last much longer however and fears that when the market tires of the dollar sterling will be vulnerable.

The Bundeshank did not increase its discount or Lombard rates at last week's council meeting, in spite of a rise in Frankfurt money market rates. Nevertheless the weakness of the D-Mark against the dollar will only increase upward pressure on West German inflation. It could be that the Bundesbank did not act last week simply because it does not like being told when to move by the market.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities Limited. 1987
Constituent changes:(17/5/89):Deletions: Redpath Inds.(Canada),NEI (UK) and Emhart (US).
Markets closed on May 19: Malaysia and Singapore.

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS: 61,876
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

£ IN NEW YORK

STERLING INDEX

JOTTER PAD

CROSSWORD

No.6,940 Set by DANTE

ACROSS

1 French husband has a period by the sea (6)
5 Somewhat flattened, round table needs repair (6)
9 City witches on trial (8)
10 Charging a convict about an uproar (6)
12 Rodent that is about to become angry (5)
13 Key worker in the hairdressing salon? (9)
14 New arrivals at the docks, we hear (6)
16 Leaps in, disturbing the dog (7)
19 State regalia thrown out (7)
21 Small number take off clothing and fall asleep (3,3)
23, 25 Progressive stages of the march of time (9,6)
26 Show where traffic goes round (8)
27 Do these orders refer to the national anthem? (8)
28 Observe present and past in child's play (3-3)
29 Countrymen give vegetables to workers (8)

DOWN

1 Share jobs equally when there's dirt at home (4,2)
2 It's significant, given real interpretation (9)
3 Drawn — from the past, for example? (5)
4 Bell game lost by the witless (7)
6 15 issues notes, though not silver (5,4)
7 Bell set, I make a plea in court (5)
8 Type of porcelain food container (8)
11 They are the ones in suits (4)
15 Spider, natural at spinning (9)
17 It may well send the economic balloon up (9)
18 The end of the road for one who saw the light (8)
20 In a way I am in need of irrigation (4)
21 Garment shortened — after dark that is (7)
22 In America wise practices (6)
24 Move towards the edge of the road (5)
25 American tugs? (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 3.

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | SINGAPORE

CANADA

TORONTO
Closing prices May 19

MONTREAL
Closing prices May 19

Total Sales 4,658,499 shares.

INDICES

NEW YORK — DOW JONES

	May 19	May 18	May 17	May 16	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2501.10	2470.12	2462.43	2453.45	2501.10 (19/5)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	90.19	89.95	89.64	89.50	90.19 (19/5)	87.35 (23/3)	–	–
Transport	1156.37	1141.82	1140.69	1139.07	1156.37 (19/5)	959.95 (3/1)	1144.08 (27/4/89)	12.32 (8/7/32)
Utilities	200.51	199.21	198.44	196.60	200.51 (19/5)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2509.35 (2482.77) Low 2468.29 (2448.86)

STANDARD AND POOR'S	May 19	May 18	May 17	May 16	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite ‡	321.24	317.97	317.48	315.28	321.24 (19/5)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	368.76	365.47	364.90	362.52	368.76 (19/5)	318.66 (3/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	29.81	29.41	29.41	29.22	29.81 (19/5)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	178.92	177.29	176.98	175.92	178.92 (19/5)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	353.83	352.58	351.84	349.92	353.83 (19/5)	305.24 (3/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	442.05	439.81	438.52	435.66	442.05 (19/5)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	May 12	May 5	Apr 28	year ago (approx.)
Dow Industrial Div. Yield	3.43	3.51	3.45	3.60
	May 17	May 10	May 3	year ago (approx.)
S & P Industrial div. yield	3.04	3.12	3.08	2.94
S & P Indl. P/E ratio	13.42	13.54	13.64	15.35

TRADING ACTIVITY — † Volume, Millions

	May 19	May 18	May 17
New York	211.311	178.223	192.783
Amex	13.763	12.914	12.806
OTC	181.958	163.451	169.987

NEW YORK	May 19	May 18	May 17
Issues Traded	1,990	1,978	1,971
Rises	1,915	831	958
Falls	519	630	505
Unchanged	456	517	508
New Highs	230	159	197
New Lows	12	19	19

CANADA

TORONTO	May 19	May 18	May 17	May 16	1989 High	1989 Low
Metals & Minerals	3429.9	3447.7	4346.1	3458.3	3564.9 (6/2)	3207.5 (3/1)
Composite	3686.8	3675.4	3669.5	3658.7	3696.1 (8/2)	3350.5 (6/1)
MONTREAL Portfolio	1901.24	1898.01	1889.95	1884.47	1901.24 (19/5)	1677.48 (3/1)

	May 19	May 18	May 17	May 16	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1562.9	1560.8	1561.6	1557.3	1565.8 (15/5)	1412.9 (7/4)
All Mining (1/1/80)	697.9	698.4	697.2	694.9	727.0 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	308.30	315.13	317.86	319.73	320.48 (12/5)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6079.02	6076.32	6068.09	6051.12	6079.02 (19/5)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	307.69	307.61	309.18	310.64	310.64 (16/5)	275.49 (27/2)
FINLAND						
Unitas General (1975)	803.8	799.7	799.1	798.6	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	460.3	458.5	461.1	465.9	470.4 (24/4)	417.9 (4/1)
Ind. Tendance (30/12/88)	108.9	108.2	108.6	109.1	111.3 (24/4)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	568.12	566.96	563.41	563.60	585.28 (13/4)	535.78 (27/2)
Commerzbank (1/12/53)	1687.0	1682.2	1671.2	1672.5	1741.9 (13/4)	1595.7 (27/2)
DAX (30/12/87)	1350.41	1343.98	1345.64	1339.75	1394.62 (17/4)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	3145.63	3277.66	3246.41	3289.50	3309.64 (15/5)	2706.69 (3/1)
ITALY						
Banca Com. Ital. (1972)	601.78	603.78	607.01	602.76	620.30 (24/4)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	34000.98	33856.33	33992.45	33926.4	34135.24 (8/5)	30153.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2518.15	2509.72	2523.45	2520.13	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	240.4	239.4	237.3	238.6	240.4 (19/5)	208.3 (3/1)
CBS All Shr (End 1983)	187.4	186.8	185.2	186.3	190.6 (27/4)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	650.00	645.21	(c)	641.47	665.61 (19/4)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	(c)	1309.71	1310.02	1303.48	1310.02 (17/5)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	(u)	1431.0	1442.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	(u)	(u)	2473.6	2486.0	2581.6 (28/4)	1961.6 (3/1)
SPAIN						
Madrid SE (30/12/85)	306.24	305.44	303.99	303.88	306.24 (19/5)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4002.6	3971.7	3950.4	3930.3	4002.6 (19/5)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	672.3	670.1	669.3	674.6	686.0 (28/4)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	506.9	507.8	510.9	519.0 (17/2)	491.2 (28/3)

‡ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Gen Electric	4,922,900	53⅞	+ ⅝	IBM	2,666,300	111⅛	– ⅞
Avon Prod	4,811,100	32¼	– ¾	Gen Motors	2,727,600	42⅛	+ ½
AT&T	4,658,800	35⅜	+ ¼	Sears Roebuck	2,501,700	47½	+ ⅝
Eastman Kodak	3,484,000	44⅞	– ⅛	Coca Cola	2,383,800	59¼	+ 1
Exxon	3,115,900	43⅞	+ ⅝	Amer Expr	2,296,200	33⅝	+ ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 19 May 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toshiba	54.6m	1,370	uch	Amada	11.9m	1,730	+70
Melco	29.7m	1,100	+20	Japan Line	11.5m	200	-8
KHI	25.5m	1,100	-10	Hitachi	10.6m	1,680	+20
Kawasaki Steel	18.7m	1,070	+30	Canon	9.7m	1,750	+60
Sumitomo Metal	12.8m	907	-6	Nippon Steel	8.9m	912	+5

AMEX COMPOSITE PRICES

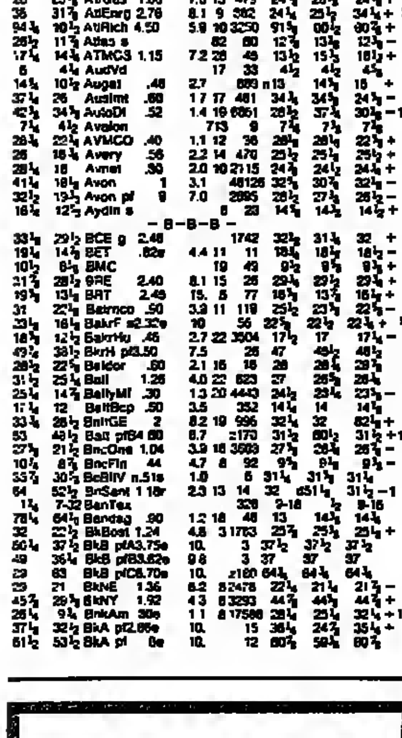
4pm prices *May 19*

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. § Suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. ♦ African prices unavailable May 18.

4pm prices May 19

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
32¼	21¾	AAR	.44	1.4	28	401	u31	30⅝	30⅞	+ ⅝
18⅛	6⅛	ACM n	1.01	11.		219	9	8⅞	9⅞	– ⅛
11⅞	10¼	ACMIn	1.26e	12.		1488	10⅞	10⅝	10¾	
10⅛	6½	ACM M	n1.61	11.		378	9⅜	8⅞	9⅛	+ ¼
11½	10⅛	ACM Sc	1.26	12.		1639	11	10¾	10⅞	
10⅛	8⅜	ACMSp	1.01	11.		628	9	8⅞	9	
4⅛	2⅝	AMCA	.12e	2.9	28	68	4⅛	4⅛	4⅛	
8¼	3½	AM Intl				1187	6	5⅞	5⅞	
23½	18⅛	AM In pf	2	8.7		321	23⅛	22⅞	22⅞	– ⅛
64⅞	39	AMR			8	8540	u65⅝	64	64¼	+ ¾
9½	3¼	ARX				126	3⅞	3¼	3⅞	
47	36¼	ASA	3e	7.5		1388	40¾	40⅛	40¼	– ⅝
51½	14¾	AVX	.24	1.1	19	422	u21⅝	21¼	21⅛	+ ⅜
60⅞	42⅞	AbtLab	1 40	2.4	17	11099	59⅝	59⅝	59⅛	– ⅛
19	15⅛	Abitibi g	1			27	19⅞	18¾	19⅞	
12	7⅛	AcmeC	.40	3 7		161	10¾	10⅛	10¾	+ ⅛
9	5⅞	AcmeE	.32	A 1	16	32	1⅞	1¾	1⅞	
24½	20¼	Acuson			27	342	u34⅞	24	24¼	– ⅛
19⅞	14¾	AdaEx	1.82e	12.		138	15⅛	15¼	15¼	– ⅛
16⅞	7⅛	AMD				5303	9⅞	9¼	9¾	
43½	28¾	AMD pf	3	8.8		5	33¾	33½	33¾	+ ⅛
9½	6½	Adobe				68	9⅛	9	9	– ⅛
18¼	18½	Adob pf	1 64	10		20	17¼	17¼	17¼	
9¾	5⅞	Advest	.12	1.6	18	116	7⅛	7⅞	7⅛	– ⅛
64⅞	39¾	AetnLf	2.76	5.1	9	2168	54⅛	53	53⅞	+ ⅞
49	24	AfilPb s	.22	.5		1163	48⅛	47¾	48	+ ⅝



Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

– X–Y–Z –

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69	30¼	Xerox	3	4.0	16	3795	66⅝	66	65⅞	− ⅞
44¼	29⅝	XTRA	.72	2.9	15	69	35¼	34⅞	35⅛	+ ¼
8¼	2	Zapata				70	2⅞	2⅝	2¾	− ⅛
30⅛	18⅝	Zayre	.40a	1.4	167	3794	29⅞	28⅞	29½	+ ⅛
26	18½	ZenithE			969	1629	18¾	19⅛	19⅛	− ⅛
10⅞	8⅞	Zenlac	1.26	13.		158	9½	9¼	9½	+ ⅛
2⅞	1.	vjZenLb				816	1⅞	1⅝	1⅝	− ⅛
21⅝	10	ZeoNtl	.80b	4.4	8	262	18⅞	18⅝	18⅞	
18⅞	18¼	Zero	.44	2.3	16	213	16¼	16⅞	16⅛	+ ⅛
30½	10	Zumlo	.68	2.2	17	1918	u31⅛	30	30⅞	+ ¼
11¼	10	Zweig	1.07e	9.8		378	11	10⅞	10⅞	
10⅛	8⅞	Zweig	n.24e	2.7		1605	9	8⅞	8⅞	− ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 20 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

OVER-THE-COUNTER

Nasdaq national market, 4pm prices May 19

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

The Business Column

The trouble with the 'networked' company

Traditional organisation structures, in which a hierarchy of managers operates within clearly defined roles and relationships, are breaking down.

So are the external boundaries of many organisations: more and more activities which they used to carry out, in the cause (if not the name) of vertical integration, are being hived off to suppliers, alliance partners and so forth – not just cleaning and other peripheral functions, but ones which always used to be considered "core", including production and distribution.

The result, both within individual organisations and between them, is the emergence of "networking": a pattern in which managerial and corporate relationships become less formal, more complex, and often less stable.

That, in a nutshell, is the picture of end-of-the-century organisations which is being sketched out by a *flood* of business writers – from writers on "organisational ecology" to down-to-earth gurus such as Peter Drucker – and filled in by a wave of real-life examples, including 3M and parts of Xerox. The picture is summarised neatly in a recent paper by Philip Sadler, chief executive of Ashridge, the British management college and consultancy group.

But how great a degree of internal and external "networking" can any organisation really handle? Can the process of managing it become so complicated that networks are less effective than the supposedly sub-optimal internal relationships and activities they replace?

Take internal networking first. Drucker argues that, in future organisations, work will be done by specialists brought together in task forces which cut across traditional departments, and are linked by intensive information systems. Co-ordination and control will depend largely on employees' willingness to discipline themselves, rather like the mutual respect and common objectives which bind members of other knowledge-based organisations, such as symphony orchestras. As in an orchestra, many people working for the organisation will not be fully employed by it.

Some orchestras are unmanageable

So far, so good – except that some symphony orchestras are unmanageable, and that their members all work in the same place.

The real problems start to arise when internal networking – especially within a far-flung multinational – is combined with the external variety. Sadler quotes a bevy of management luminaries to support the "unpeeling an onion" view expressed in this column on April 24: that all sorts of organisations are shedding activities which they used to carry out. Instead, these are being performed by independent organisations in a network.

The theory behind such moves is that they will free managers – and capital – from involvement in wasteful activities which are no longer (or never were) among the organisation's prime sources of competitive advantage.

A frequently-quoted model is Olivetti, the Italian office equipment multinational, which not only sources a growing proportion of its products from suppliers, but has also constructed an extraordinarily complex – and shifting – network of joint ventures and other forms of alliance with a mass of small and medium-sized companies around the world, as well as with such *giants as America's AT&T* and Japan's Canon.

Academics and consultants may extol the ability of Olivetti to manage this sort of "dynamic network," as they call it, but it is far from clear that the strategy will be sustainable. If Olivetti's network proves unstable and ultimately unviable, it will only underline the fact that vertical disaggregation in favour of networking does not necessarily free an organisation from unwanted tasks – it may simply make them more complicated, sensitive and difficult to manage. These problems are compounded if the organisation's internal structure is also a "network" of ambiguous relationships.

Christopher Lorenz

THE MONDAY INTERVIEW

Broadcasting sends for the turnaround man

Raymond Snoddy meets George Russell, chairman of the Independent Broadcasting Authority

'The ITV companies hold the high ground'

George Russell, executive chairman of Marley building products group, has made something of a speciality of reorganising and turning round companies or projects in trouble. In a lecture he once called it "making the best of a bad job."

His career has included:

- Reorganising the Welland Chemical company in Canada after its takeover by W.R. Grace and in its specialist field "building it from a poor situation to a world leader."
- Being sent back to his native north-east England from North America by Alcan to set up and run an aluminium smelter at Lynemouth, Northumberland, when the project "just wasn't working".
- Merging Alcan UK with British Aluminium to create British Alcan Aluminium before going off in 1986 to restructure Marley.

"I have always been hired and put into – chosen to go into – situations that are basically turnaround situations," he says. Now, as the first businessman to be appointed chairman of the Independent Broadcasting Authority, he faces possibly his biggest turnaround challenge.

This is to manage the IBA, handling the transition to the body that will replace it, the Independent Television Commission, and coping with the effects of Government plans to introduce more competition, choice and market forces into British broadcasting.

When George Russell became IBA chairman in January, morale was low. In its November white paper the Government had already announced that future broadcasting licences were going to be sold off to the highest bidder and that the authority itself was going to be abolished. It seemed like the end of an era. Mr Russell told his new staff: "You're going to be asked to build your own gallows. Why don't you make them the best gallows you've ever seen built in your life."

At first glance it seems extraordinary that a man who has more interest than most in aluminium, cement and building tiles should suddenly find himself the most influential figure in British commercial broadcasting. Indeed, his office at the IBA reinforces the impression of a man in love with industry. Behind his desk there is a aerial photograph of the Lynemouth aluminium smelter and on the walls are pictures created from the different colours and textures of bricks manufactured by the Nottingham Brick Company, part of Marley.

Despite his manufacturing background, Mr Russell believes he is well equipped to take on the management of change in British broadcasting. "With hindsight, I had a stunning preparation for the job," he says – though he is still a little bemused as to how it all came about.

In 1979, as the IBA began preparing for the last round of allocating regional broadcasting franchises in 1981, it was suddenly realised thet the authority did not have a single member who came from the area of England north of Watford, or anyone with industrial experience. Some civil service file contained the name George Russell: industrialist . . . born Gateshead . . . interested in the arts . . .

"I didn't know what the IBA was. But the day I arrived the ITV companies went on strike and I was suddenly the most knowledgeable person there," says Mr Russell, who served on the authority for eight years. He was then asked to be deputy chairman of Channel 4 where he *was closely involved* in the change of control as Jeremy Isaacs, the founding chief executive, moved to run the Royal Opera House and was replaced by Michael Grade from the BBC.

To complete a commercial broadcasting hat trick, he was asked to be the first "outsider" to become chairman of Independent Television News, the television news organisation owned by the ITV companies.

Mr Russell believes strongly that television must be viewed as an industry like any other if proper resources are to be allocated for programme making.

Just before being offered the IBA/ITC chairmanship, he warned his ITN colleagues that commercial television in Britain faced a difficult future. There were as many as half a dozen potentially negative economic factors, he said, which might prevent the ITV companies playing the same role in the 1990s as they had in the past two decades and "any two or three of these coming together spells trouble."

He pointed out that the hours of commercial public service broadcasting in the UK have expanded – on the back of strong growth in advertising – by more than 200 per cent in the past 8 years. Any advertising slump in the 1990s would leave the ITV companies over-extended.

After that, he argued, what has to be taken into account is the extra competition from the planned new Channel 5, the five new TV channels from British Satellite Broadcasting and possibly as many as 48 satellite channels.

"It's a double competitive whammy, all that competition pouring in for a similar revenue. And there's a bidding up for people, a bidding up of programme costs," he warns.

To make things even more complex, the ITV companies, as quoted companies, now have to worry as much about dividends and share prices as programmes – in a way that was not true in the past. There are also difficulties between the companies on how the national networking system works; and commercial broadcasters face growing competition from "a very strong major company called the BBC."

All the same, George Russell believes the new broadcasting bill is "a very necessary happening to provide the catalyst to allow this whole reshaping to occur."

He is perhaps uniquely qualified to act as an intermediary between the Government and the broadcasting industry, able to speak the language of both, aware equally of the merits of public service and the advantages of competition.

His appointment alone was enough to calm worried broadcasters. Tension was further reduced by the IBA response to the white paper, which put forward a more sophisticated form of tendering for commercial broadcasting franchises than highest-bid auctions – giving weight to programme quality and the quality of applicants' business plans.

The IBA response, heavily influenced by Mr Russell, talks of preserving the present 15 regional ITV companies and spreading the "burden" of public service programmes – such as current affairs, regional programmes and drama – which may be high quality but do not always produce the largest audiences or advertising revenue over all the commercial channels. He also wants a three year moratorium on hostile takeovers after the new franchises are awarded.

"We can help the restructuring to occur, help the acquisition patterns that are going to take place in the 1990s so that we emerge in 1995 with a still viable industry that still carries public service broadcasting." He adds that the aim is "a strong commercial deregulation and a continuing standards regulation." However, he is the first to concede thet there is an inherent contradiction in the two objectives.

Mr Russell is a realistic, down-to-earth man. When a *youth, after playing* a *particularly* brilliant game of football, he was offered the chance to play professionally for Sunderland. He said no, realising that he would probably never play such a game again.

At the IBA, however, he is setting himself ambitious objectives for his five year term – trying to ensure that "80 per cent" of the present breadth and range of programmes on both ITV and Channel 4 survives the increase in competition. He believes that if the future of broadcasting in Britain is left entirely to the market, probably only half the regional companies would survive and that only half the present range of programmes on commercial television would be viable.

The new IBA chairman is prepared to accept what he calls the verdict of a free market on who should actually do the broadcasting but is enough of an interventionist to want "the discretion to ensure the survival of more public service broadcasting than the market alone would provide."

The debate about the future of Britain's broadcasting system is still under way in the Cabinet committee chaired by the Prime Minister. The Home Office, responsible for broadcasting in the UK, favours an approach similar to George Russell's. It is not yet clear whether Mrs Thatcher will see that as radical enough to satisfy her vision of increased competition and choice.

However, George Russell is optimistic – at least for the moment. "The ITV system has matched the BBC over the years; why should it stop now? The ITV companies hold the high ground; why should they stop making good programmes because they might lose their franchises?"

Yet he concedes that, in the long term, success or failure is finely balanced. "We have been given a chance – one shot – to face the industry in a different direction and give it a very good chance to come through the 1990s with success."

Nervous television moguls – anxiously asking themselves whether Mr Russell will succeed in restructuring commercial broadcasting in an enduring way – can console themselves with his own, perhaps partial, account of his record in past turnaround tasks.

He sums it up with more than a hint of pride: "The Canadian company from 1967-72 is still a world leader," he says, "the smelter is still working flat out all these years later, Alcan is still a profitable business and Marley is doing all right." Commercial television chairmen must hope that Mr Russell's confidence about his past achievements proves to be a suitable augury for his new challenge.

PERSONAL FILE

- **1935** Born Gateshead. Educated Gateshead Grammar School and Durham University
- **1959-1967** At ICI
- **1968** Vice president and general manager Welland Chemical of Canada
- **1981** Managing director of Alcan Aluminium UK
- **1986-** Managing director and later executive chairman of Marley
- **1979-88** Member, Independent Broadcasting Authority
- **1987** Deputy chairman Channel 4
- **1988** Chairman Independent Television News
- **1989** Chairman of IBA

Leaflet which poses a taxing question

JUSTINIAN

Greenwich London Borough Council's attempt to get the Government's leaflet, The Community Charge: How it will work for you, withdrawn from circulation failed in the High Court last week. Since there is to be no appeal, the conclusive judicial decision is worthy of close study for its legal reasoning and its implications for the free flow of accurate, official information.

Lord Justice Woolf and Mr Justice Ian Kennedy held, in effect, that an omission from the government leaflet of any reference to an important aspect of the poll tax legislation – formally, a section in the Local Government Finance Act 1988 – was misleading and did not accord with the Government's own standards for such publications.

Under the poll tax legislation, each person is liable to pay the community charge on himself or herself, but is not liable for the charge on anyone else who is living in the same house. The section in question provides, however, thet people over the age of 18 who are not married to each other but are living together as husband and wife are jointly and severally liable for the community charge. Greenwich's complaint was that the leaflet made no reference to the joint and several liability of spouses or persons living together. The leaflet was to that extent inaccurate and misleading.

To understand the court's approach to the challenge made by Greenwich, it is necessary to appreciate the purpose of the leaflet. The Government had announced earlier this month it would be distributing, to two million households, a leaflet describing shortly by question and answer the facts about the poll tax.

The leaflet was designed to convey, in simple language, the main provisions of the poll tax. Whether or not any leaflet is inaccurate or misleading would always be a matter of judgment. But would the ultimate judgment lie with the Government or the courts?

There is a well-settled convention in government that such official information must distinguish between what is entirely appropriate dissemination of official information in order to satisfy a legitimate public interest, and what is forbidden because it manifests the exercise of governmental power. In short, the purveying of propaganda at public expenae is impermissible. There should be no risk of a Ministry of Mis- or Dis-information.

Rather more specifically, the conventions about government publications include the relevance of the publication to the responsibilities of government, the objectivity of the written material and an abstinence from partisan politics. Anyone familiar with summaries of legislation, official reports and other modes of official communication knows only too well, however, how tempting it is to highlight what the summariser *wants to convey* and to play down what may provoke an adverse reaction. Is the relevant departmental minister, therefore, acceptably the arbiter in deciding what should or should not go into a leaflet which is simply an explanatory memorandum of an Act of Parliament?

The courts have been quite clear about their role. In the absence of any law passed by Parliament, it is not the task of judges to act either as a censor or as a critic of anything published, whether it be by government or anyone else. It would be unthinkable that anyone outside government should be inhibited from freely expressing any view, but then any non-governmental person or organisation does not bear any responsibility for the acts of government.

The courts, however, do, very exceptionally and in a very restricted manner, supervise the decisions of ministers and their officials. The courts have power to intervene if the guidance or advice given by a government department gets the law wrong, or if the publication was fundamentally flawed by a grossly inaccurate or misleading statement. In the vast grey area of reasonable dispute about what constitutes a proper dissemination of official information, the courts decline to act as umpire between the minister and the public. The minister remains the master of publications.

Are the judges right in adopting, in this context, the traditional approach of judicially controlling ministers only within the bounds of ensuring the range of procedural safeguards and strict observance of the law?

An explanation of legislation, often complex and not readily intelligible to the average person, where every citizen in the land is affected directly by it – such as the poll tax – ought primarily to be a task for the officials of Parliament. It may be that, for practical reasons, the clerks to Parliament are not the proper vehicle for conveying in simple language the law of the land; the alternative is for government to perform the task. But then the *composition of the document* should either be left to those who were neither the promoters of the legislation (namely, the Government) nor those who partisanly opposed the legislation. Both are by definition disqualified.

The public is entitled to expect complete objectivity in the preparation of leaflets explaining what Parliament has enacted. The public can legitimately expect that the hand of government should not be on the pen that moves across the pages of the explanatory leaflet.

If that expectation cannot be fulfilled, the public may properly ask that the document be made subject to ultimate surveillance by the courts. An omission of importance should be just as judicially reviewable as a mistake of law.

SECTION III

FINANCIAL TIMES SURVEY

Turkey's ruling Motherland Party is on the defensive following recent setbacks in local elections. Voter dissatisfaction has been reflected in increasing union unrest. As Jim Bodgener reports, Prime Minister Turgut Ozal is suddenly under intense pressure

Pandora's box re-opened

THE uppermost question now in Turkish domestic politics is how far the resounding defeat of the ruling Motherland Party (Anap) of Prime Minister Turgut Ozal in the March local elections has re-opened the Pandora's box of the body politic. One thing is clear: Anap's claim to be the party of economic and political stability has been badly dented.

Fears of a return to the turbulent late 1970s have been stoked by the resurgence of minority groupings descended from the pre-1980 left, right and Islamic parties. Behind these concerns is the relative youth of Turkey's parliamentary tradition, and a history of a military coup every 10 years since the 1960s.

Essentially, however, it was the lower and middle-income voters which gave Mr Ozal the thumbs down because of inflation — 62.5 per cent in the year to the end of April — eating away their earnings and savings. The vote also signalled disapproval of Mr Ozal's style of leadership.

It appears the fundamental struggle now is for the leadership of the right, a clash sharpened by personal animosity between Mr Ozal and Mr Suleyman Demirel, leader of the True Path Party (DYP), which relegated Anap into third place in the local elections. The victorious main opposition Social Democratic Populist Party (SHP) capitalised on its urban base, but did not significantly increase its share of the vote compared with the 1987 general election.

At a deeper level, the local election results reveal the increasing freedom of Turkish voters from rigid political or denominational allegiances.

Take the views of Mr Bulent Ecevit, poet premier hero of the Turkish left in the 1970s, but now castigated for splitting the left vote with his Democratic Left Party (DSP). He says an unrepresentative electoral system which allowed Anap to win a parliamentary majority with only 36 per cent of the total vote was responsible for trapping many Turks in religious and traditional right-wing allegiances.

If such voters were released, then a social democrat partnership would be returned to parliament in the next general election. But the present SHP is so much of a catch-all left wing party as to be enveloped in its own internal contradictions.

On the other hand, Anap is still a very new party having been founded in 1983. It was cobbled together from the remnants of pre-1980 parties, and internally its factions range from quasi-social democrat liberals to right-wing nationalists. Whether Mr Ozal can for long bind these disparate factions together is another unknown.

The question is how long Mr Ozal can fend off opposition clamours for early general elections before Anap's second term ends in 1992. At the moment, he is sitting tight, in the hope that a reduction in inflation will win back voters. Also, the strong protest element in the local election vote might come back to the Anap fold should it be faced with choosing a new government.

Meanwhile, a deal could be reached with the SHP on a choice of presidential candidate to replace President Kenan Evren when he steps down in November. That would buy time for Anap and the SHP, and leave the DYP out in the cold. It would also permit President Evren to make an orderly exit.

Underlying the development of a far more preferential vote in Turkish politics is a young population whose aspirations are pointed by all parliamentary parties towards Europe.

A rebuttal by the European Community of Turkey's application for membership would be an affront to Turkish chauvinism, and could have untold consequences; not for nothing does Mr Ozal urge European leaders to have greater vision if Turkey is to continue to be a model example of stability to other developing countries.

Turkey's young people are in the vanguard of both change and conservatism, especially through the expansion of the middle classes. A brash, affluent materialism characterises those profiting most from the free-marketeering Ozal era. At the other extreme are Islamic fundamentalists.

Beneath the middle classes, the tide of urbanisation set in train in the 1960s and 1970s, which spawned the gecekondu (illegal "built-at-night" houses) barrios surrounding the main conurbations, is receding. Far from being sullen and marginalised, these people have developed a lively subculture; they are not a hot bed of revolution.

Rather, the danger, as witnessed in May Day clashes in Istanbul, is that impoverished young people will be alienated from the state by its least conscientions enforcers — the police force. The police are largely responsible for human rights abuses which still arouse international criticism.

Meanwhile, the Government can claim credit for having maintained high ecooomic growth under the pressure of heavy external debt service without resorting to more draconian measures.

The most immediate challenge comes from organised, salaried and waged income groups within the public sector, which with least access to the informal economy are most vulnerable to rising prices. The Government is already back-pedalling on its pledges of compensation for lost real income in 1988.

This has aided the re-emergence of shop *floor activists*, including many former adherents of the left-wing DISK trade union which was suppressed following the 1980 military coup, and encouraged them to challenge the old guard leadership of the moderate main trade union Turk-is.

The rapid development of infrastructure in the west of the country has been overshadowed by the deprivation of the east. This part of Turkey is predominantly rural, with a population held in thrall by clan and tribal allegiances. Many such communities are riven by deep, invariably Islamic, differences. This inflammation is worsened by local clashes between security forces and separatist guerrillas of the Marxist Kurdish Workers Party (PKK). The region has been further destabilised by camps containing about 30,000 Iraqi Kurdish refugees.

The Kurdish question dogs Turkey's passage towards Europe, and will do so until the authorities can introduce greater economic development in the east and south-east. This should sobdue the Kurds' militancy, though a political solution is required. The south-east Anatolian development programme is one such economic attempt at transformation.

The east-west dichotomy most visibly demonstrates that Turkey is undergoing profound change. In attempting to telescope rapid development, the Government, by its own admittance, may have driven too hard, bringing inflation and rising social tension.

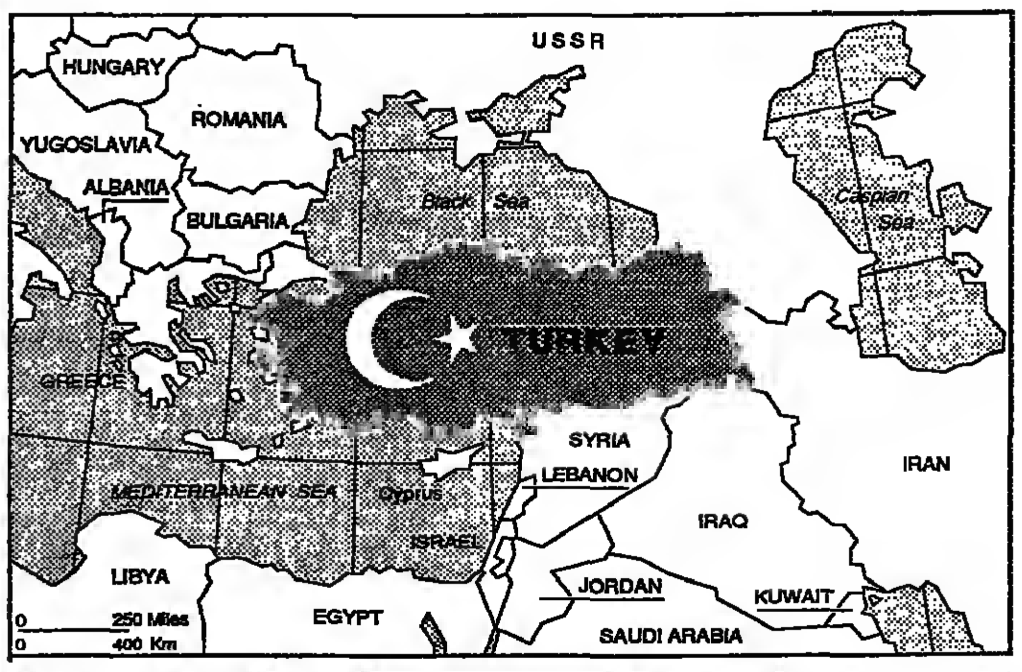
Another approach may be required. As a senior official in the State Planning Organisation says: "The World Bank and the IMF are not managing this economy and they are not pre-occupied with the social issues that we have. In economic policies geared towards the happiness and prosperity of the people, you've got to strike a balance."

The south-east Anatolia irrigation and energy scheme, the largest project of its kind in Turkey

TURKEY

KEY FACTS

Area: 770,760 sq km
Population: 54.18m
Prime Minister: Turgut Ozal, Motherland Party (Anap)
GDP at market prices: TL50.72
Real growth in GDP: 3.6% (1988)
Inflation: 67%
Growth in industrial production: 2.1% (1988)
Currency: 100 kurus = 1 Turkish Lira (TL)
Average exchange rate (1988): $=TL1,422; £=2,533
Current exchange rate: $=TL2,088; £=TL3,415 (May 1989)
Merchandise exports: $11.64bn (1988)
Merchandise imports: $13.64bn (1988)
Current account balance: $1.5bn (1988)
Reserves excluding gold: $2,365m
Main export markets: West Germany 21.4%; Iraq 9.3% Italy 8.3%; US 7.0%
Main import markets: West Germany 14.9%; US 9.6%; Iraq 8.2%; Italy 7.6%
Total stock of debt: $37,694m (1988)
Debt service: $7,100m (1989)
Debt service ratio: 25.4%
Debt/GDP: 62.4%
All data 1987 unless otherwise stated



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PICTURES BY TERRY KIRK

Jim Bodgener interviews a Prime Minister facing many problems

Ozal's tough local difficulties

TURKEY'S political scene was still confused in tha aftermsth of the surprise defeat for the ruling Motherland Party (Anap) in local elections in March. However, when Mr Turgut Ozal, the Prime Minister, spoke to the Financial Times last month, he did not betray any signs of the electoral setback having in anyway dislodged his Government's medium and long-term vision of the patbs Turkey should take, botb at home and abroad.

Prime Minister Turgut Ozal

Antagonisms between the party's central structure and those in the municipalities had mainly brought about the defeat, according to Mr Ozal, implicitly pointing an accusing finger at the former mayor of Istanbul, Mr Bedrettin Dalan. By deserting Mr Ozal shortly before the poll, Mr Dalan ensured both his own surprise political fall and the loss of Turkey's largest city to tbe main opposition Social Democratic Populist Party (SHP).

"Anap is a new party which was established in 1983," said Mr Ozal, adding that its winning streak in seven elections and referenda since coming to power bad to end somedey. Tbe lesson had been learnt, and the necessary cbanges made in the party and the cabinet, be said. Rebellious fections like the "holy alliance" of Islamic conservatives and right wing nationalists knew that the party's unity was paramount if it was to achieve its goals.

Providing the Islamic fundamentalists were not pusbed into a corner, they did not worry Mr Ozal. If Communists and fundamentallsts were allowed to come oot into the open, then everyone conld see them for what they were, he added.

Mr Ozal said he would not seek an early snap election, stressing that Anap had won s fresh five-year mandate in the autumn 1987 general elections. A newly elected government naturally faced its most testing period during the first one and a balf years of office, ground which could be made np later.

To date no candidate had yet been selected to replace President Kenan Evren, who steps down in Novemher. As to whether or not an accommodation might he reacbed with tbe SHP on a consensns presidential candidate, Mr Ozal indicated that Anap did not have the two-thirds majority required in the first two rounds of voting. "I think this implies a kind of consensus if lt conld be reached. If it is not reached, then in tbe third round the new president will be elected by a simple majority."

On the economic front, inflation was being curbed through increased economies in an already tight budget, coupled witb a slowing down of puhlic investments, and tighter control of the money snpply.

In this respect, the central hank bas more room for manoeuvre this year than previously. For instance, lt will be eased of the hurden of repaying convertible lira deposits of Turkisb expatriete workers contracted around the turn of the 1980s, while responsibility for supporting exports to Iraq had also been shifted from the central bank to the new Export-Import Bank of Turkey.

Based on tha numbers for the first two (traditionally weak) months of 1989, Mr Ozal predicts a current account surplns again this year following the record $1.5hn surplus last year. Tbe ontcome would depend on wbetber or not there was a slowdown in pnblic sector investment from the high rates recorded in recent years.

"Last year we really passed over to a free market economy," said Mr Ozal. This had included floating the lira and freeing interest rates. At the same time, there was mnch better financial control. Last year, taxes were increased, on oil for example, and through advance payments of corporation tax.

Recovery from a slowdown in demand last eutumn, when high interest rates persuaded investors to switch to savings, was indicated hy electricity consumption whicb increased by 9.5 per cent in April over March, compared with the preceding 3-4 per cent monthly increases. Supported hy wage rises, the real turnaround would come in mid-1989, Mr Ozal said.

Regulations governing Turkey's trade unions would not be changed, Mr Ozal said. However, workers who had signed biannual employment contracts in 1987 would be compensated for losing out to inflation last year. Wage earners did not form a large proportion of Turkisb society, and the effect on the austerity programme would not be as significant, as for example, in the UK, be said.

Compared with tbe total workforce of between 18m and 19m, tbe total nnmber formally salaried or waged, including pensioners, was between 5m and 6m.

"Tbere are quite a big number of farmers, artisans and craftsmen and small business enterprises; indeed Turkey is somewhat similar to Italy," said Mr Ozal. "On the other hand, if Turkey is going to be a member of the European Commnnity, wages would beve to be increased."

Formal negotiations with the EC on Turkey's application for full memhership sbould start before 1992, though the Government did not want to rnsh the matter, Mr Ozal emphasised. The EC Commission is dne to deliver an opinion on Turkey's economic and technological compatihility this year.

"Turkey today is quite competitive with Europe, we are not afraid; I can tell yon we can complete in abont six, seven years the customs union provided for in our 1963 Association Agreement," the Prime Minister stated. In order to compete with the US, Japan or the Far East, he said, it would be greatly advantageous for the EC to locate its ailing industries in Turkey. The free movement of goods, capital and labour especially might be problematic, said Mr Ozal.

"Some European countries are afraid that Anatolian peasants will flood Europe. I am ready to make sacrifices on that. Instead of sending those people abroad, we would like to see Turkish development supported by European countries."

Mr Ozal said Turkey would develop with the free flow of capital and goods. By the 21st century a declining and increasingly ageing population in Europe might create a demand for Turkisb lahour, which by then Turkey might not be able to supply because, he said jokingly, they would be fully employed at home.

There was another sida to the question, the Prime Minister added. Turkey not only had good trading relations with nelghbouring Middle East states, but exports and joint ventnres witb the Soviet Union were fast expanding, which made Turkey an excellent location.

EC aid was not the issue – the pledged Ecu 600m in the Fourth Financial Protocol frozen after tbe 1980 military conp was small compared with Turkey's annual import bill of around $15bn.

"Only one thing is going to help the economy and that is if we start early negotiations on our membership of the EC. If our friends in the West would like to see a stable Turkey which is necessary for Europe and also for the Middle East, I think they should understand what I have to tell them. The leaders of Europe today have to have more vision."

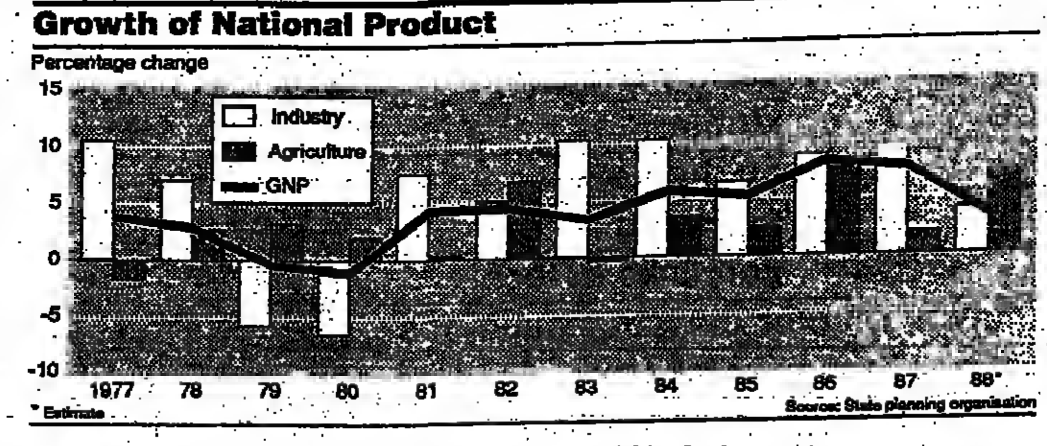
The Prime Minister said he would ensure a new, simplified and deregulated constitution is written for the country. "Turkey has to be what I call transparent in many aspects, and everything should be discussed, everything," he said.

Previously the two pillars of the republic had been prohibition of religious parties on the one hand, and communism on the other. "Bnt now what I am thinking is that modern Turkey has to be built on two new pillars: one is free thinking, removal of the ban on thought and ldeas; the otber pillar should be freeing the enterprises of the free market. If yon give people these two basic freedoms, a country will develop faster."

ECONOMY

Inflation still the main worry

THE defeat of tha ruling Motherland Party (Anap) in tbe March local elections rudely awoke the Government to the extent to which it had overlooked the electoral peril of high inflation. With Mr Turgut Ozal, the Prime Minister, now hack at the economic helm, there is a grim resolve finally to get to grips with inflation, which reacbed 62.5 per cent in the year to the end of April.



"Inflation is now public enemy number one," says Mr Gunes Taner, one of two state ministers appointed in the post-election cabinet reshuffle to report directly to Mr Ozal on the economy. Mr Taner, who left Citihank in 1987 after nearly a decade with the US bank, is responsible mainly for the treasury and also the banking system.

Economic management was tightened up all round in the reshuffla in which the premier's brother, Mr Yusuf Bozkurt Ozal, was dropped as State Minister for the Economy. A new Finance and Customs Minister, Mr Ekrem Pakdemirli, has already shown his mettle in a stringent directive to cut back on all but the most necessary project expenditure.

Combatting inflation still appears to be riddled with inconsistencies

"We are optimistic. Inflation has been falling in the past two months, and there is real teamwork in the government," says the other new state minister, Mr Isin Celebi, who heads the money and credit commission and is responsible for the State Planning Organisation (SPO).

The Government has countered Opposition and business criticism that it has neglected productive industry in favour of exports and long term returns from infrastructure construction by claiming that the latter is now broadly complete, thereby expanding its area of manoeuvre. The Government's two stage plan had always been to lay the foundations first and then build on them to take Turkey into the 21st century, says Mr Taner.

Be that as it may, the Government may have been partly blinded to the perils of inflation by otherwise encouraging economic indicators in 1988. Inflation itself had fallen back from the peak of 87 per cent last November, and interest rates have been falling in line.

The most remarkable improvement has been in the external account. The current account was in surplus for the first time since the early 1970s by $1,503m, compared with a deficit of $982m in 1987. A rapid 59 per cent increase in earnings from tourism to $2,360m offset a slowdown in the growth of exports by 14.1 per cent, although demand shortfalls in the domestic market also dampened imports.

Phased out tax rebate incentives to comply with Turkey's obligations under its Gatt subsidy code were largely responsible for the decline in exports, although a credit squeeze on the Iraqi market was also to blame.

Economic management was tightened up after the March poll setback

A comfortable current account surplus is expected this year too, says Mr Ali Tigrel, of the State Planning Organisation. Even taking adverse co-efficients into account, the deficit will probably be between $500m and $800m, according to Mr Gazi Ercel, director of international relations at the treasury.

The total debt stock, helped by currency fluctuations, marked time in 1988, totalling $37,694m at the end of the year. This year's total debt servicing is expected to amount to $7.1bn, of which about $4.1bn will be met from fresh borrowing, says Mr Ercel. The fresh money will come largely from World Bank joint financings and bond issues.

The budget deficit in 1988 – a primary engine of inflation – totalled TL3.4 trillion (million trillion), within the forecast TL4 trillion. The ratio of debt servicing to gross national product amounted to 3.4 per cent, the best performance related to target in the past 15 years.

At the same time, the ratio of the public sector borrowing requirement (PSBR) to GNP dropped to 5.2 per cent compared with 8.2 per cent the previous year.

Growth was curbed by austerity measures last year to around 3.4 per cent from 7.4 per cent in 1987. Hardest hit was the manufacturing industry, with output growth falling to 2.2 per cent compared with 8.7 per cent in 1987. It seems clear that industry bore the brunt of tight monetary measures last year, and is in need of reflation if serious recession is to be avoided.

A battle plan against inflation is emerging, but still appears to be riddled with inconsistencies in deference to sectoral intereets. This has compounded the already difficult task of the SPO in framing the Sixth Five Year Development Plan.

But the real question is how the Government can reflate business and industrial confidence, plus pay off worker frustration, without fanning inflation again.

The broad strategy in the short-term is to meet the cost of assuaging worker and farmer discontent by squeezing a total of $1bn more from the public sector, says acting treasury head, Mr Namik Kemal Kilic.

As to doubts that little more can be slashed, Mr Taner says: "That depends on who's got the knife, and who'e making the cuts." Half of the expenditure savings will come from projects

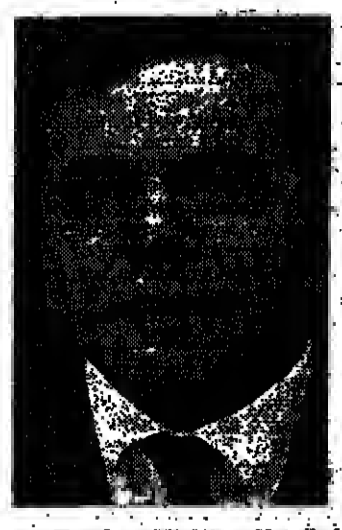
Low-income groups will then be compensated for the fall in real incomes since 1986 to a ceiling of 20 per cent. In effect this will result in the Turkish lira equivalent of $750m in income increases for white and hlue collar workers, with an extra $250m in subsidies to farmers.

The Government will then be able to stick to its original 1989 hudget targets, says Mr Kilic. The anticipated deficit of around TL2 trillion will be financed through treasury bills and bond sales, which will be stepped up to ahsorh lira remissions in cash payments to farmers later in the summer. In effect, this will amount to recycling between TL4 trillion and TL5 trillion.

To keep demand and growth down to comfortable levels of between 4 per cent and 5 per cent in 1989, stimulants to the domestic sector will be limited to regeneration of the social housing sector by the renewal of government sponsorship of mass housing, which lapsed last year.

All this sounds very fine in theory, say economists, but the policy's successful implementation will hang on the Government's political will to carry it out in the aftermath of the local election defeat. As in every year since the mid-1980s, the real issue is how much economic good sense will have to be sacrificed to political imperatives.

Jim Bodgener



Government line-up: Ilhan Akuzum, Tourism Minister; Namik Kemal Kilic, acting head of the Treasury; Okkes Ozuygur, president of the Mass Housing and Public Participation Administration

Mark Nicholson on Ankara's bid to join the European Community

An ambivalent relationship

WHAT do you say to the neighbour on the doorstep who pressed you for an invitation to the party until, out of politeness, yon invited him, not expecting him to come?

Apparently, European diplomats find themselves in a similar qnandary about how to answer Turkey's request to join the European Community.

A European Commission response to Turkey's application, in the form of an "opinion" on the country's suitability for membership, is due before the year end. The signs are that Brussels is preparing an answer somewhere between "come in" and "no". Such a middling reply would anger Ankara, which has repeatedly said it wants talks about full membership to be under way by 1992. But it would sum up the ambivalence which has characterised Europe's relations with Turkey since Ankara applied for associate EC membership in 1959.

Europe's first invitation to join the Community came in 1963 when Turkey signed an Association Agreement setting out the aim of eventual entry into the Community after moves to form a customs union. The agreement followed sustained Turkish lobbying in a period when the country sought to strengthen institutional links with the West.

However, the agreement lay moribund. Ankara abandoned its tariff-cutting programme unilaterally in 1976 amid cries of economic crisis (although Mr Ozal's Government has since made some cuts). Political relations were stalled on European unease over the military interventions of 1971 and 1980, persistent reports of political arrests, systematic torture, and denial of rights to the country's 2m Kurds. There was unease, too, about the strength of the secular hold over Turkish Islam.

The arrival of Mr Turgut Ozal and his determination to open the country's trading borders, revived the Turkish impetus towards Europe and in April 1987 his Government rang the EC's doorbell by formally seeking accession. Seen from the European capitals, though, little had changed to make the timing of Turkey's application any more propitious and it was made against the insistent advice of Community diplomats.

It is not surprising, therefore, that the same old spanners have tended to get in the works of the European machinery turning over Turkey's application, nor that Ankara keeps finding itself exasperated over the same issues.

The first meeting of the Association Council since the 1980 conp last April, for instance, foundered within minutes when the Community inserted into the opening remarks, apparently at the insistence of Greece, a reference to Cyprus.

Also, when the mixed committee of Turkish and European MPs met last month for only the second time since the 1980 coup, talks degenerated into a slanging match over human rights abuses, with European deputies expressing concern over Turkey's legal and penal systems.

The EC is in a quandary about how to answer Turkey's request

Turkey's record on human rights has long been the most prominent and controversial sticking point in dealings with Europe. Amnesty International, the London-based human rights group, is at present conducting a campaign to persuade the Government to end what it describes as systematic torture in prisons.

In response, Mr Turgut Ozal's Government has repeatedly said that any instances of torture are individual ects committed without official sanction by policemen who are duly tried when caught. Turkey also signed the European Convention on Torture in 1988, which opens up the prospect of direct inspection of sites where torture is suspected. In 1987 the Government authorised Turkey's first human rights association.

However, the group, which claims 7,000 members, says since the European convention was signed, they have received testimony of 35 cases of torture in Ankara's jail alone, and reports of five deaths during torture.

Against this background the leader of the European delegation to the meeting of deputies, British MP Sir Tom Normanton, left saying that Turkey could not expect an early start to membership negotiations. He reminded reporters that it took Britain 15 years to negotiate entry into the Community.

But pro-European Turks, in government and ont, readily concede there is scant hope of entering Europe within 10 or 15 years. What exasperates them is Europe's unwillingness to consider for membership what they confidently predict will be the robnstly democratic, wealthy and industrial Turkey of 15 years' hence, rather than today's Turkey of nascent democracy, sheltered industries, population growth of 2.5 per cent a year and a gross national prodnct per head which, at $1,200 (£723), is less than half that of Portugal.

To those raising sceptical eyebrows, the Turkish riposte is that there is no better guarantee of Turkey's transformation into a European state than the start of talks towards full accession. Nor would there be a better guarantee for democracy than membership.

Mr Seyfi Taşhan, director of the Foreign Policy Institute in Ankara, puts it this way: "Is democracy a problem? Yes, one should consider Turkey on the way to achieving democratic institutions. But would it be more democratic if it were outside the EC or more democratic inside?"

The evolntion of Portugal, Spain and Greece into good European states from a history of military rule is usually adduced to support this argument. "If Greece had not become a full member," says one Turkish diplomat polemically, "some general would have toppled the Government long ago."

Bnt while there are few European doubts about the sincerity of the Turkish application, or the determination to produce a fully robust democracy, doubts do remain as to whether these are the sole forces shaping Turkey's future. These doubts tend to revolve around fears of an Islamic resurgence, or of the army's possible reluctance to cede its self-appointed role as guardian of political stability.

Mr Taşhan says Turks are weary of trying to offer reassurance on these points and suggests European worries are out of date. "I think the European fear results from a historical image, a past association of the Turks with Islam," he says. "But we took on a European legal system and discarded the Islamic system. If we feel any need then it's for more liberalisation not more Islamicisation."

Mr Taşhan adds, though, that Europe should also recognise limits to what it can reasonably ask of Turkish reform in the name of supranational harmony. "In Western Europe nationalism has lived its day, it is at the end of its maturity," he says. "Here, nationalism began only at the end of the First World War. It's a young nationalism and it's a lot to give up immediately."

In the end, the European Commission is likely to allow Turkey room enough to develop its nationalism while offering some prospect of European affiliation.

If Turkey is not offered an opinion recommending that membership negotiations should begin right away, the EC would argue that this does not offer Turkey the "nothing" option of an all-or-nothing choice. The Community has been seeking to develop new forms of association with other countries and blocs, as recent talks towards deepening links with the European Free Trade area countries indicate.

Besides, runs the snbtext, the Community is going to have enough on its plate in the near term forging a single market and monetary union and weighing the likely epplications of nearer neighbours Austria and Norway.

Ankara would protest strongly if EC membership were deferred and there are already endible threats that Turkey would feel forced to review its Nato role if it were denied entry. But suggestions that Turkey might run to the arms of another, meaning perhaps the Middle East or even Eastern Europe, would offend against the logic of 66 years' foreign and domestic policy.

Instead, the risk is that Turkey will realise the darker side of its promise that membership would cement democratic reforms. "The longer we are kept ont," says one foreign office man, "the slower the pace of change will be."

Relations with the Soviet Union

Ankara warms to the Big Bear

IN THE heart of Moscow, Turkish workers are busily restoring the historic Petrovsky Arcade. Last December, across the re-opened Sarp border crossing on the Black Sea coast, a convoy of Turkish trucks rumbled through with relief aid for Soviet Armenia. And clean-burning Soviet natural gas will help to clear the heavily polluted skies of Turkey's largest cities.

All this is the result of growing warmth and openness – if tinged with wariness – in Turkey's relations with the bear to the north, always treated by Ankara respectfully since the founding of the Turkish republic in the 1920s. It has taken place in the spirit of perestroika, says Mr Valter Sonia, a senior diplomat at the Soviet embassy in Ankara.

"I would say our relations are quite positive now," he says. "We are establishing a fresh mode of relations with Turkey according to our new philosophy." Soviet diplomats tend to skirt around the banning of communism under the Turkish constitution, regarding it as an internal matter which should not be a barrier in state-to-state relations.

Over the past two years, potential causes of friction like the flight information region (FIR) between the two countries in the Black Sea have been resolved, while the opening last summer of the long closed Sarp border gate was a symbolic acknowledgement of the increasing friendliness.

To a large extent, the process has been underpinned by expanding economic links based on an initial agreement reached in 1984 and adumbrated since to import Soviet natural gas via a pipeline completed in 1987 from the Bulgarian border via Istanbul up to Ankara. Supplies will increase gradually up to a volume of 6bn cu metres annually in the early 1990s.

According to the deal, Turkey will pay for 70 per cent of the gas with goods and services, and the remainder in cash. Officials sit down annually to work out the list of goods and services. Since the outset, it has included construction projects by Turkish companies, accounting this year for 35 per cent of the overall $70m list. Because the gas distribution infrastructure was not in place on time last year, Turkey agreed to pay for the 400m cu metres it could not absorb out of the 1.6bn cu metres under the agreement, but will actually take delivery of it this year in addition to the scheduled 3bn cu metres.

Several potential causes of friction have been resolved

Turkey's state pipeline agency Botas is racing to keep abreast of the imports programme through the construction of pipelines. About TL60bn worth of contracts have recently been awarded for industrial connections, while tenders were due to be invited in May for engineering studies on three major branch lines costing between $600m and $1bn to distribute the gas throughout Anatolia, says Mr Nezihi Berkkam, the head of Botas.

Work to convert and expand the existing network in Ankara is on schedule, but has fallen behind in Istanbul, partly as a result of disagreement shortly before the March local elections between Botas and Mr Bedrettin Dalan, the former mayor of Istanbul, over how much gas the city should take. At the same time, contingency plans have been laid for alternative supplies to supplement the Soviet gas. A French-led group has been chosen to build a gas import terminal on the Sea of Marmara for Algerian and possibly Libyan liquefied natural gas.

Turkish industry in general is fast switching over to the gas whenever it becomes available, in preference to fuel oil or inefficient and polluting lignite (brown coal), say officials. Botas can sell the gas to industry at rates of between 25 per cent and 30 per cent less than fuel oil, claims Mr Berkkam.

Turkey wanted to reduce the 30 per cent cash payments, so a $150m three-year line of credit was extended earlier this year.

The contracts awarded to Turkish companies so far within the context of the gas deal have included a $108m award to Enka for the Petrovsky Arcade and the construction of a hospital. Payments have been satisfactory and on-the-nail, according to Enka's project director, Mr Haluk Gercek. Another has gone to Koray-Baytur valued at $79.5m for hospitals and health centres.

But Turkish contractors are keen to take on more work than the gas deal permits, and the Turkish government wants to better balance the $400m or so annual imports from the Soviet Union outside of the gas deal. A $350m credit is being negotiated to fund the construction by Turkish companies of industrial plants in the Soviet Union. Another avenue is for Turkish contractors to go in as subcontractors to major Western companies.

Soviet diplomats skirt around the banning of communism in Turkey

Turkey's relations with its Nato allies appear to be unaffected by the blooming of relations between Ankara and Moscow. As one Western diplomat points out, most Nato members are doing the same thing anyway.

But at a valedictory press conference earlier this month, the departing US ambassador in Ankara, Mr Robert Strausz-Hupe, said, obliquely, he was convinced that Turks knew how to protect their own interests, and that Turkey would never do anything contrary to the interests of Nato in dealings with its neighbours.

Jim Bodgener

Relations with the Middle East

Economic issues prevail

TURKEY as a bridge between the Middle Eastern and Western European blocs is a theme often trotted ont to western businessmen and diplomats by the Government. But in truth, Ankara's relations with other Middle East states are as variegated as its relations with other OECD countries.

Broadly speaking, economic links underpin diplomacy with the Middle East. Without this, ties with many Arab countries, including Iran and Iraq, would be far more volatile, and in some cases, clouded by Arab suspicions of neo-Ottoman pretensions on Turkey's behalf.

Yet trade with Europe still outweighs that with the Middle East. Turkey's belated entry into oil-rich Arab markets in the early 1980s won lucrative returns, but in the long-term its natural inclination is towards Europe.

There is a fundamental dichotomy to be taken into account too between Maghreb and Mashrek countries. Politically, the Baathist regimes in Syria and Iraq have alweys had a latent streak of hostility towards Turkey.

Prickly unease between the secular Turkish state and the Iranian theocracy periodically erupts into the open, with Iranian denunciations, and indignant Turkish retorts.

Hostilities reached a nadir in Marcb wben both countries withdrew tbeir ambassadors over an incident involving the Iranian ambassador in Ankara. Since tben botb sides have calmed down, though bilateral trade, while falling sbort of an agreed two-way volume of $2bn annually, appears unimpaired by the latest embroglio.

Economic bonds, especally debt, temper disegreement between Iraq and Turkey, whicb still adheres to its wartime policy of 'active neutrality' between the two former Gulf War combatants. Iraq's

Continued on Page 4

David Barchard on the widespread role of religion in a secular state

A move back to fundamentals

ON A Friday afternoon in late April, the Çağaloğlu district of Istanbul, Turkey's equivalent of Fleet Street, ground to a complete halt for an hour as lines of kneeling worshippers blocked the streets by the hundred in an apparently deliberate show of strength to celebrate the opening of a new mosque.

There were mutterings in the editorial columns of some newspapers, but no arrests. The event was in stark contrast to events in the same city a few days later wheo trade unionists came out on to the streets for an unauthorised May Day rally and swiftly found themselves under fire from the police.

Earlier still in the same month, groups of middle-class Turkish women had takeo to the streets to protest at the steady growth of religious fundamentalism and the consequent pressures faced by Turkish womeo with Western life-styles.

The pervasive role of religioo in a country that has officially been secular for more than 60 years often surprises foreigners. "On the first day of Ramadan, a sign went up in the ministry canteeo that it would be closed for one month for repairs. I heard some officials grumbling about it but no one seemed to challenge the decision openly," says a senior UK civil servant who visited Turkey recently.

Ten years ago, the canteen would almost certainly have continued to function throughout the Holy Month, and the ministry he visited would oot have had – as most Turkish ministry huildings have today – a small mosque or *"mescit"* in its hasement.

Middle-class women have taken to the streets to protest at the steady growth of fundamentalism

However, middle-class Turks are deeply divided. Not all are sure there is a religious resurgeoce under way in the country, rather than just an overflow into the towns of rural piety as a result of migration from the villages to the big cities.

Though liberals aod left-wingers have loog wanted to see the role of religion in public life trimmed to the minimum, cooservatives with European life-styles are less sure, regarding faith and custom as the key to national identity and a bulwark against its erosioo by what they tend to see as the twin forces of cosmopolitan commercialism and Communism.

This view seems to have been espoused by the military who, after the 1980 revolution, seem to have regarded religion as the most effective antidote to left-wing radicalism. In 1982 Turkey's educational reforms of the 1920s and 1930s were put into reverse and Islamic religious instruction became compulsory in all secondary education for the first time in half a century.

The reintroduction of religious education is resented by secular Turks and by non-Moslem families whose children have to spend hours learning Islamic religious formulas for their homework. However, by itself the significance of the change in schools would not be too great: an hour of religious instruction a week at Lycée level, given by a layman rather than a *"hodja"*.

However, changes in the rest of society are more momentous and are likely to prove difficult to reverse, should a government, possibly a social democratic one, come to power in the near future. They include:

■ A vast expansion of vocational religious education to the point where clerical lycée education has become a parallel system with a total enrolment of around 300,000. Religious graduates now go on to universities and appear to be targeting certain professions with long-term aims. About 40 per cent of the students sitting examinations in Ankara to become local governors are ideotifiable as religious activists.

■ Steady growth in visibility of the *tarikats* or religious brotherhoods, such as the Nakshibendi and Kadiri. These have technically been illegal since 1926. In practice it is impossible to understand right of centre political parties in Turkey unless you know who belongs to which *tarikat*. However, it is bad form to identify particular politicians with their *tarikats*, though everyone knows that the (now banned) Justice Party had a large number of Nurcus (a 20th century Turkish brotherhood) while the Motherland Party has more Nakshibendis in its ranks.

There has been a revival of specifically Islamic costume

■ The revival of specifically Islamic (as opposed to peasant) costume in the streets. This began with the scarves and raincoats of militant Islamic women soon after the revolution in Iran, hut has now spread to men. The Istanbul daily Hürriyet recently published a spotter's guide telling the uninformed how to recognise which sectarian was which hy his clothes. Again this would have been more or less unthinkable in metropolitan Turkey a decade ago.

■ Attempts to spread religious conformity by attacks on theatres, hooks, and individuals deemed to be at odds with religious principles. As Timurtaş Hodja, a preacher at the Sultan Ahmet Mosque in Istanhul, noted for his fiery sermons, available on cassette, puts it: "It is a great sin for a man even to talk to any man whose wife is going around naked (i.e. bare-headed)."

Middle-class Turks tend to be less worried by these developments than might be expected. They believe that ordinary Turks are pragmatists and that religious extremism is fanned by financial support from outside the country.

Saudi Arabia has long been suspected of channelling funds to Sunni conservatives, and has, on occasion, certainly paid some Turkish Islamic officials. Libya also fostered its own links with religious groups in the early 1980s. Turkey has easy relations with both states and the links do not seem to have disturbed the authorities.

Iranian propaganda is a different matter. A steady flow of Iranian clergy trying to infiltrate provinces in Eastern Turkey has been intercepted in the past year, according to officials.

Turkish worries are not simply confined to efforts hy Iran to export revolutionary fundameotalism. The revival of Islam in Turkey in the 1980s has seen a resurgence of the different groups and sectarian movements in the country, so much so that the internal divisions of Islam in Turkey are among the most formidable obstacles to the religious movement.

The most important religious division, however, is one that is seldom talked about. Around 20 per cent of the population are not Sunni Moslems, hut Shia with a long tradition of radical opposition. In the 16th century, Alevi Shia Moslems in Central Anatolia staged a major rebellion against the Ottomans, in alliance with the Iranian Shah Tahmasp.

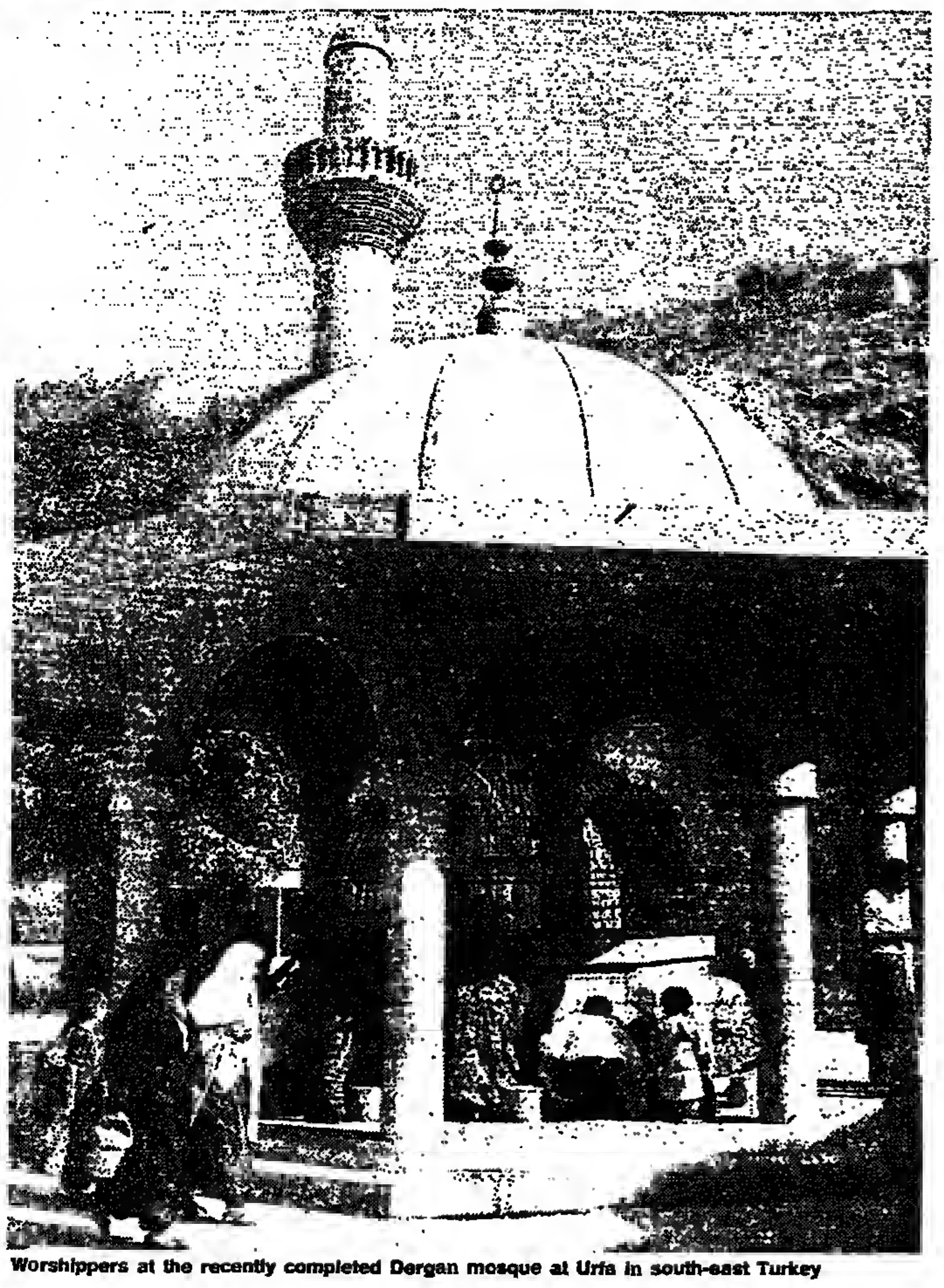
The reintroduction of religious education is resented by non-Moslem families and secular Turks

The split between Sunni and Shia Moslems led to fierce intercommunal riots and massacres in the late 1970s which helped trigger military intervention. There are some signs that Shia Moslems, under pressure from Sunni officialdom, are once more uneasy.

Just how great a prohlem Islamic fundamentalism will be for Turkey remains unclear. President Kenan Evren, architect of the 1982 Constitution, has spoken up strongly in favour of secularism recently, thus giving heart to the Westernised middle class.

A Constitutional Court ruling against female students being allowed to wear headscarves (known confusingly as "turbans" in Turkey) was seen as further reinforcement for the secularists. Delivered on the eve of the local elections in March, it placed Mr Turgut Ozal and the Motherland Party in an awkward dilemma, unable to please either secularists or the religious groups.

But at present the tide in Turkey seems to be flowing the fundamentalists' way and there is no sign yet of its being checked.



Worshippers at the recently completed Dergan mosque at Urfa in south-east Turkey

THE MILITARY

Pervasive martial lore throughout the country

WITH MORE than 654,000 men under arms, Turkey has the second largest armed forces in Nato. Ever since the Normans encountered (and admired) the martial qualities of the Turks on their journey across Anatolia in the closing years of the 11th century, the Turks have been viewed by western Europeans primarily as a nation of soldiers.

The presence of the military is pervasive throughout the country. Barracks and sentry points are to be seen in every town of any size.

For all male Turks, a spell in the armed forces as a conscript is an essential prelude to citizenship. Eighty-eight per cent of men under arms are conscripts, serving in what are generally agreed to be arduous and unpopular conditions.

Separating the strictly military functions of Turkey's soldiers from their broader role in society is not easy. Three times in the past 30 years, the military have deposed elected civilian governments in the name of Ataturk's reforms and the need for law and order.

All but one of Turkey's seven presidents have had a military background. Lessons on national defence are taught in every high school by officers.

For much of the time since the Second World War, the maintenance of law and order has relied largely on the military with martial law being declared frequently in trouble spots. The military see themselves as the guardians of the State, a role they enshrined in law after the 1980 revolution with an amendment to their Service Law which says that the duty of the armed forces is to "oversee and guard" the working of the constitution.

That constitution, and most of the legislation on political matters accompanying it, is itself the work of the soldiers and largely reflects their nationalistic outlook.

In strictly military terms, Turkey's armed forces rely heavily on aid from the US and West Germany. The 1987 military hudget was for TL1.9 trillion ($1.3bn) with a further $700m (£418m) coming from the country's Nato allies.

Successive Turkish governments, wrestling with the problem of how to operate a very large conscript army and simultaneously buy up-to-date technology for it, have claimed that aid on this scale is woefully inadequate, especially when it is usually strictly pegged by the US Congress with military aid to Greece on a ratio of "seven to 10", the "10" going to Turkey.

For all male Turks, a spell in the armed forces as a conscript is an essential prelude to citizenship

As a result, Turkey's land forces with 542,000 men (91 per cent of them conscripts) are much larger than its air force (57,400 men, 64 per cent of them conscripts) or its navy (55,000 men, 76 per cent of them conscripts.) Though the navy and air force pride themselves on being superior to the land forces in some aspects, in Turkey the army is the senior service and the chief of general staff, one of the most powerful people in the country, always comes from it and never from the two junior services.

Worries about foreign aid have not deterred Turkey from substantial investment in defence industries over the last decade, including a $4.5bn project to co-manufacture F-16 fighter jets in a joint venture between the Turkish Air Force and Lockheed.

Other ventures include substantial investments in military electronics, low level defence systems, munitions, armoured personnel carriers and other military vehicles, and tank manufacture. The goal in these investments appears to be avoidance of reliance on imports and the encouragement of national self-sufficiency.

There is virtually no public debate about whether these investments are economically justified – though the average Turk in the street would almost certainly agree that they are – and their impact on Turkey's balance of payments can only be guessed at, though estimates are rare; even the publications of the IMF, OECD, and World Bank not offering much guidance on this point.

Many Turks see the military as a bulwark of secularism against resurgent religious movements

Turkey's presence in Cyprus is not much of an economic hurden, consisting of one corps of two infantry divisions or about 23,000 men who for most administrative purposes are probably no more expensive to maintain than they would be on the mainland.

Senior appointments are decided hy a military council in August each year and confirmed by the Ministry of Defence. Two years ago, Mr Turgut Ozal made a bold throw by blocking the appointment of a particular general as chief of staff – something no Turkish prime minister had dared do since the 1950s. The move was successful, though it was followed by a case for defamation by a retired chief of staff, a case which Mr Ozal lost last month. Recruitment to the officer corps has been one of the swiftest rontes to npward social mobility since the late 19th century. The career of Kemal Ataturk, modern Turkey's founder, is not untypical.

He was the son of a minor customs official, living on the edge of a large city. Success in the examinations gained him admission to a military lycée followed by the military academy, an education which enabled fluency in at least one foreign language along with the other professional and social qualities required in a top officer.

In the 1980s, the technological qualities of a Turkish officer's education is probably higher than it has ever been, and certainly far in advance of what is available in most civilian lycées.

However, the sensitive task of training men to be the arbiters of their nation's political destiny imposes strains. Military cadets are sealed off from the rest of society, almost as conscientiously as seminarians in a Catholic country.

They are exhorted to follow the example of Ataturk, while being scrupulously watched for left-wing leanings. "The whole system is on guard against leftism," says a former military student. However, leftism is no longer the only danger to Turkey's secularist and Europeanising political mission.

There have been several purges of students with links to Islamic organisations over the past two years, with one major rash of expulsions two months ago. "In practice it is much harder to guard against religious activists than it is against the left," says the former cadet officer.

He points out that military education in Turkey is not quite as secular as it looks. Students in military schools say grace before meals, for example, something with few parallels elsewhere in the country. And the military, especially after 1980, gave mild encouragement to Islamic movements and education as a proven antidote to Marxism.

The result is that while most middle-class Turks still believe that the military are a bulwark of secularism against resurgent religious movements, the assumption that the military are antomatic and natural defenders of secularism is not as universal as it would have been a decade ago.

The military themselves seem to be acutely aware that Turkish society is now mnch more complex and less easily directed than it was 25 years ago. This is in large measure responsible for the military's insistence on staying well out of the political limelight since 1983, even though they retain great influence behind the scenes.

All the same, many civilians as well as soldiers would probably agree that the armed forces are the only institutions capable of maintaining order during the country's recurrent political deadlocks and hreakdowns.

Separating the strictly military functions of Turkey's soldiers from their broader role in society is not easy

Many civilians are uncomfortably aware that though the street violence which triggered military interventions in 1971 and 1980 is missing, national politics since the March local elections look increasingly reminiscent of the early stages of deadlocks and hreakdowns which the politicians proved unable to resolve by themselves.

David Barchard

Economic partners

Continued from previous page

main oil export outlet, twin pipelines running through Turkey with a combined capacity of 1.5m harrels a day, were built during the conflict, while Iraqi debts to Turkey, rescheduled annually, amount to hetween $1.5bn and $2bn, depending on Turkish credit ceilings.

These enforced common interests withstood the potentially inflammatory influx of upwards of 50,000 Iraqi Kurdish refugees last September from the hlitzkrieg waged hy the Iraqi army against Kurdish rebel bases in northern Iraq. Around 30,000 refugees remain in camps on Turkish soil.

Wlth Syria, relations are most enigmatic. Damascus has never quite come to terms with the ceding of Hatay province and Antioch to Turkey hy the French in the late 1930s, while in Turkish eyes the Government of President Hafez Assad in Syria is a regime rooted in terror.

There has been a superficial rapprochement in recent years between the two countries, though one issne, the campaign for self-determination being waged against the Turkish authorities by the formerly Syrian based guerrillas of the Marxist Kurdish Workers' Party (PKK), is still a sore point.

Another overlay adds to the complexities of relations with Iraq and Syria, the construction by Turkey of major dams controlling the headwaters of the Euphrates. Although a technical committee consisting of officials from all three countries meets regularly at ministerial level, oo formal agreement governs the distribution of irrigation water; this year there is likely to be drought in Turkey.

Of all Turkey's Middle East relations, perhaps those with Egypt, reinforced by periodic joint military exercises, are the warmest. Cordial relations exist too with Saudi Arabia and other Gulf countries, where once memories of Ottoman imperialism lingered uncomfortably on. Libya's mercurial antics periodically embarrass Turkey, bnt on the whole, Ankara prefers to stick to economic deals, and keep the political side as anodyne as possible.

Neither history nor conflicting regional interests are at present a barrier to rapidly developing relatione with Maghreh countries; a visit by President Kenan Evren early last year to Algiers smoothed over any ruffled feathers remaining from Turkey's tardy recognition of the Government of President Chadli Benjeddid in the late 1970s.

On Turkey's other flank, the special relationship with Pakistan accentuated by the friendship and mutual respect of Presidents Evren and the late Zia ul-Haq has been confirmed courteously by a meeting between Prime Minister Benazir Bhutto and President Evren during the latter's brief stopover in Islamabad earlier this year.

One pan-Arab cause that does figure in Turkey's Middle Eastern relations is Palestinian rights.

Although Turkey is slightly more supportive, its approach is similar to that of EC countries as contained in their Venice Declaration. The Government has condemned the heavy handed suppression of the *intifadeh*, hnt at the same time maintains diplomatic relations with Israel.

Jim Bodgener

Caroline Southey on a rapidly maturing banking sector

In the throes of a sea change

TURKEY'S banking system is in the throes of a sea change. Since 1980, it has born the brunt of structural reforms in the economy, having to accustom itself to realistic interest rates, stricter supervision, external auditing and – nastiest of all – growing competition.

Even so, as 1992 approaches the Turkish banking system has little or no prospect of real integration with Western Europe's financial sector – whether or not the Turkish dream of political unity with the European Community is realised or not.

In January, the domestic banking world was rocked by the resignation of Mr Bulent Şemiler, the 32-year old general manager of the newly merged Emlâk Bank after only a year in the job. Mr Bülent Şemiler was one of several foreign-trained and youthful bankers put in to turn the country's state-owned banks into modern financial institutions.

There is little prospect of real integration with Western Europe's financial sector

State banks dominate the Turkish banking sector because of their size and close connections with government, even though it is the private sector banks in Istanbul which make the profits.

Till six months ago, the state banks each reported to the state ministry responsible for the sectors in which they conducted most of their activities. Now the Government has set up a new department, under Mr Güneş Taner, a former Citibank manager in Istanbul turned politician, to maintain regular contact with senior management at the state banks.

At Emlâk Bankası, for example, the bank's management meets members of the department once every three months.

Mr Engin Civan, general manager of Emlâk Bankası says: "It benefits the general managers of all the state banks. We are now reporting directly to one state minister who is delegated by the PM. The decision-making process has been streamlined."

One foreign banker believes Mr Taner's appointment shows "tremendous political courage" on the part of Mr Turgut Ozal, the Prime Minister. "Historically state banks have been an easy means of building support and buying political favours. Mr Ozal is showing that he wants to see an end to that."

One sign of reform is the steady reduction through mergers of the number of state banks. Earlier last year Emlâk Bankası was created through the merger of Emlâk the state housing credit bank, and Anadolu. Earlier this year, the Government announced a merger between the state-owned Tourism Bank with the Turkish Development Bank.

But the banks face major problems. Under-capitalised and overburdened by non-performing loans from industry, their management structure often lag behind those of the private sector.

Ziraat, Turkey's largest bank by far, declared net profits of TL172bn (£49m), but had to write off TL302bn (£86.4m) as provisions against bad debts. These bad debts are not foreign sovereign risk, but lending to local companies which has gone sour. Given the high interest rates which have prevailed in Turkey during Mr Ozal's six years in office, default is common.

Similar problems have beset Emlâk, largely because it inherited a bad portfolio from Anadolu Bankası, another state bank with which it was merged a year ago.

There are further problems for the state banks arising from their original role of acting as credit providers to particular sectors. Ziraat was set up in the last century to provide credit to the agricultural sector, Emlâk has a near monopoly on housing finance, and Halkbank specialises in loans to the small business sector.

"State banks will continue to provide subsidised financing to particular sectors in Turkey. That is indisputable. But what is needed is a more streamlined sector and a more transparent subsidy arrangement," says a foreign bank adviser. He adds, however, that it remains feasible to run a bank like Ziraat on commercial lines as well as have it act as an instrument of government.

Changes in employment practices are a further factor making it possible for state banks to compete more effectively with the private sector. Historically state banks in Turkey have always lost qualified staff to the private sector which offered better terms of employment.

State banks are still strapped by a shortage of financial resources, but changes in the law mean that they are now able to offer higher salaries to attract good bankers. At Ziraat, Mr Ulusoy has taken advantage of this to instal a new tier of English-speaking managers immediately below him.

"When we start thinking outside the Central Bank as the central source of funds, we will have made ths revolution," says Mr Ertuğrul Kumcu, deputy governor at the Central Bank.

The revolution may be some time coming for Ziraat and Emlâk, but it is not deterring their modernisation efforts. "We have been heavily involved in settling down after the merger with Anadolu," says Mr Civan, adding that since then conditions have progressively improved. Profits have risen to TL60m, total assets stand at TL2.5 trillion (million million), and non-performing loans have decreased from 14 per cent to 10 per cent of total loan portfolio of TL2 trillion.

Mr Civan adds that he is "happy with the progress" the bank has made on redncing non-performing loans though he believes undue attention has been focused on them. "The problem is behind us now," he says with quiet confidence.

Mr Ulusoy of Ziraat is equally confident. He manages Turkey's largest bank with total assets of TL13 trillion, 1,250 branches and 42,000 staff.

And he has already scored some big victories. He claims that by tripling the provisions for non-performing loans, the bank has now completely disposed of all non-performing loans on its balance sheet.

Most observers agree with Mr Ulusoy's claim that the relationship between state banks and the government has matured. "This year we have not been interfered with once," says Mr Ulusoy. "Given objectives yes, but we have been left alone to fulfil these."

Although Ziraat has suffered from being an agricultural bank with many small credits outstanding to marginal farmers and others, Mr Ulusoy says he intends to focus on these more legitimate operations.

Mr Civan says that in an effort to expand Emlâk's portfolio, its corporate finance loans to big Turkish companies will increase and trade finance will increase accordingly. The bank will also start to roll over the first products of its construction facility.

Requirements for banking staff to speak at least one foreign language and have familiarity with electronic technology are being stepped up.

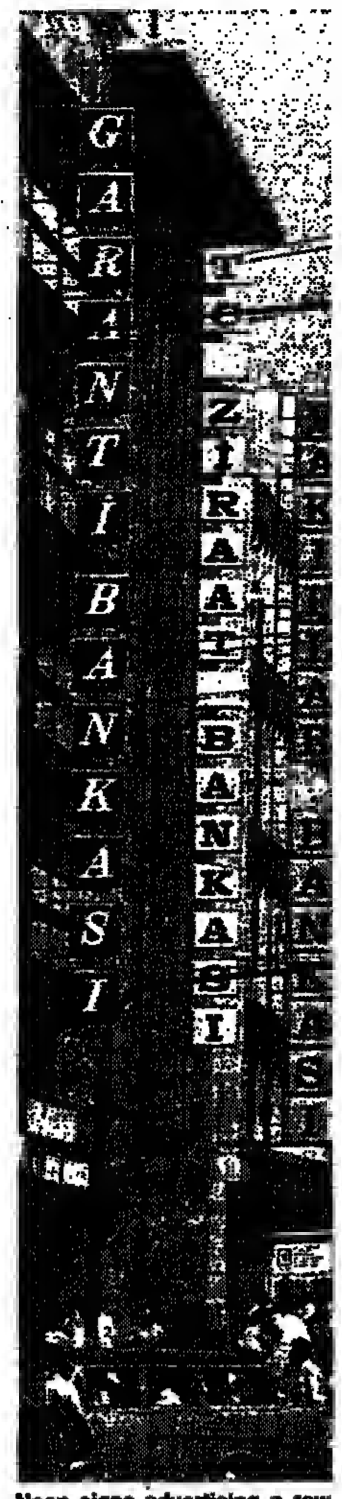
State banks dominate the sector because of their size and close ties with government

Systems is one area of modernisation that both the state and private banks are plunging into with zeal. At Emlâk the largest 92 branches are now on-line. Mr Civan hopes that by the end of the year this will have risen to 250.

Systems are being developed at Emlâk through an agreement with Citibank, one of the most prominent foreign banks in Turkey and one which has played a major part in helping reform the sector in the past decade. Mr Civan hopes that by the end of this year 70 per cent of the network will be in place with the balance installed next year. The bank is set to start using ATMs at its larger branches in three cities next year.

"Our credit card operations are also being organised by Citibank. We were losing money but as of April we have turned this around and are breaking even on our new technology investments, Mr Civan says.

At Ziraat, 660 branches will be on-line this year. Mr Ulusoy hopes all branches will be in the network by the end of next year. Ziraat, which has 8m depositors, sees computerisation as essential if branches are to operate at full productivity and expand.



Neon signs advertising a row of banks in the busy commercial district of Adana in south-east Turkey

Private banking sector

Retail revolution

TURKEY'S 58 banks now have around 6,500 branches and employ between 150,000 and 160,000 people. Though trade finance has made the fortunes of a series of small foreign and local boutique operations which have popped up in the 1980s, the system relies chiefly on retail banking and interest and fee income from depositors.

The services offered are mostly not very sophisticated: limited money transmission services based on pass-books and electronic transfer, and term deposits which in normal times just manage to outpace the country's chronic hyperinflation.

But retail banking can make profits too. The sector leader last year – and most years – was the Akbank, which declared net profits of TL306bn (£87.4m) and unlike the other giants of the sector had to make only limited provisions of TL6.9bn (£1.9m) against bad debts.

Akbank's success is generally put down to canny management rather than technological innovation or a radically different approach to prodncts and markets. The bank belongs to the Sabanci Group, Turkey's second largest industrial conglomerate but it seems to have been successful in insnlating banking operations from industrial ones. Not all its rivals in other groups have been so lucky.

Given Turkey's highly volatile economic environment, and the sky-high interest rates with which the banks have to live (inflation is currently running at around 75 per cent annually and last autumn bank rates to one year depositors touched 85 per cent) retail bankers have to hang on to their hats.

Akbank's principal competitor, Yapı ve Kredi, a large private sector bank which belongs to the Çukurova Group, thinks differently. It is spending heavily on new retail banking products including automatic teller machines (ATM)

Yapı ve Kredi, the country's third largest private bank and pioneer among domestic banks, has set itself a gruelling schedule for the year.

Of Yapı ve Kredi's 588 branches, 220 are now automated, representing more than 80 per cent of its loan business volume. The rest of the branches are the bank's cash boxes, their main function being to collect deposits and make small loans.

The automated branches are concentrated in Turkey's main trade centres and larger provincial centres. The bank hopes to have 400,000 cash card users by the end of the year from its present base of 135,000.

Mr Ismail Yalçınkaya, executive vice president says the bank has already starting harvesting tbe benefits of its aggressive automation strategy with higher customer accounts as well as a rapid expansion of its customer accounts base. Over the past six months Yapı ve Credit has opened 70,000 new accounts, he says.

Bnt opinion is divided among other retail bankers as to how receptive the Turkish public, particularly in rural areas, will be to the electronic banking revolution.

Many banks are spending heavily on new banking products including ATMs

Mr Bülent Şenver, general manager of Pamukbank, also part of the Çukurova Group, is adopting a far more cautious approach. The bank has invested $10m over four years on automation. It has 101 of its 191 branches in Turkey fully automated – 85 per cent of its total business volume. It hopes to have 20 branches on line by the end of the year. Bnt Pamukbank has not yet installed ATMs.

"Onr feasibility study showed that for the majority of ATMs we were planning to instal, we could expect only 25 per cent of their capacity to be utilised."

Pamukbank is developing in other areas too. With 1.5m account holders, it is concentrating on providing more sophisticated retail customer services. At the beginning of the year it launched a range of new credit facilities; it has issued a charge card and - alone among the private commercial banks – it operates a housing finance facility under which it has authorised TL297bn (£84.8m) in subsidised housing credits from the Public Participations Fund in Ankara to 60,000 customers clients over the past three years.

The mortgages are made possible because of a special arrangement Pamukbank has with the Mass Housing and Public Participations Fund, an extra-budgetary government agency which amasses funds for selected development projects, and finances bousing projects. The loans are heavily subsidised and the emphasis is on contributing funds to purchase newly completed flats rather than on long-term lending secured against existing property.

Meanwhile banks face problems on their basic business of taking deposits and lending them out. The ratio of loans to deposits in the seven largest commercial banks shrank from around 70 per cent last autumn to 51.2 per cent in mid-March.

What is going on? Basically, deposits are rising but lending is not. Deposits have grown by 14 per cent since October in real terms, whils lending is stagnant and a new withholding tax of 10 per cent has reduced the attractiveness of buying Treasury Bonds, one of ths safest ways Turkish banks have had until now of putting their deposits to work. Earlier this month the authorities launched two and five years time deposits to attract savers away from short term saving.

Foreign currency dealings are also less attractive than they were. Several banks incurred serious losses on their foreign exchange positions in the autumn (though one or two fortunes were made too).

Savers were attracted by the high rates offered in October when deposit rate competition was allowed for the first time, but rates to borrowers have shot up to levels – well over 100 per cent – where it is more or less impossible to find borrowers. This may bode ill for Turkey's weaker banks in 1989. With external auditing now obligatory, it will be much harder than in the past to disguise losses. The Central Bank now has the ability to monitor the performance of banks on a weekly basis.

Last year it presided over at least one quiet rescue operation for a small bank on the fringes of the market. This year it may find itself with a lot more trouble on its hands.

Caroline Southey

Ankara is taking on its own character, writes **Jim Bodgener**

Capital way to cater for the crowds

ANKARA, once the bureaucratic and diplomatic, dull, ugly sister of Istanbul, is beginning to bloom. Unlike so many sterile, purpose-built capitals in the developing world, it has started to assume a character and purpose of its own.

The city, in the heartland of Anatolia and the Turkish nation, was chosen as the capital, instead of Istanbul, in the early 1920s by the founder of the Turkish republic, Mustafa Kemal Ataturk. At the time Istanbul was ruled by a decrepit Sultanate and was occupied by the Allies after the First World War. Ankara was only a small town, half gutted by a fire, with few substantial buildings.

Ankara has lived through different guises since the Hittite period 2,000 years before Christ. Perhaps its most illustrious period was as a provincial capital, Angora, during the Roman Empire. It has been a battlefield several times, and it witnessed the defeat of the Ottoman Sultan Beyazit in 1402 by invading Mongol hordes under Tamerlane.

As the capital of the Turkish republic, Ankara has outgrown its planners' conceptions, dwarfing the original centre round Ulus. The first city plan was drawn up in the 1920s for an ultimate population of only 250,000. Yet, with the advent of mass urban migration from the countryside, and populist politics in the 1950s, Ankara began to burst at the seams. Its present population is more than 3m.

Though the process had started a decade earlier, between the mid-1950s and the mid-1970s Ankara experienced the phenomenon in Turkey called gecekondu (literally "build-at-night"), the sprawl of squatter houses. However, these are not the rickety shanty towns common elsewhere in the developing world; rather, they are the agglomeration of sturdily-built Anatolian villages, attractive with their whitewashed walls and tiled roofs.

There is a common misconception that under Turkish law, a home of four walls and a roof put up overnight has squatter rights. The truth is more prosaic – municipalities have been loath to raze the gecekondus for fear of electoral retribution.

Over three generations, the gecekondus have developed a

The use of more imported coal has made for clearer skies

sub-culture peculiarly their own, characterised particularly by Arabesk music, a fusion of traditional folk song and modern Western pop.

At the same time, through a combination of co-operative development and landlord avarice, the middle-class population in the centre of the city grew denser as apartment blocks covered every available square foot.

Since Ankara is in the heart of a natural bowl formed by surrounding mountains, the result was chronic winter pollution, exacerbated by the widespread burning in industry and homes of sulphurous and inefficient lignite (brown coal).

In the mid-1980s, the municipality finally began to tackle the city's problems, under the ruling conservative Motherland Party's (Anap) slogan of "social justice". Essential services such as roads, water and sewerage were extended to the gecekondu barrios, and imported coal made for somewhat clearer skies.

And the air, hopefully, will get progressively cleaner through the conversion and expansion of Ankara's gas network to distribute Soviet natural gas imported through a pipeline, completed in 1987, from the Bulgarian border. Among other ambitious projects launched under the previous Anap administration, is the first 14km stage of a metro system, to be built under a "build-operate-transfer" private sector franchise.

At the same time, Ankara benefited from the free-marketeering developmental

A metro system is among the city's most ambitious projects

outlook of Prime Minister Turgut Ozal's government, as foreign businessmen flocked to the capital in pursuit of lucrative contracts. The result is that where once the only hotel of international executive standard was the government-owned Buyuk Ankara, now there are several.

However, the city fell in the March local elections to the main opposition Social Democratic Populist Party (SHP), under a modernistic planner, Mr Murat Karayalcin. He is highly critical of the previous administration, which he says had nothing to match his own "Ankara Programme".

"We believe that the municipality should function as a sort of local government, not as a general directorate of technical matters," he says. "In our understanding, the administration should embrace all sorts of problems, economic, commercial, social and cultural, as well as public works."

However, to the relief of the Canadian-led contractors, Mr Karayalcin has confirmed that the metro project will go ahead.

Finally, through a master plan for the city until 2015 drawn up for an eventual population of 5m, the planners may find themselves back in control. But unlike past rigid layouts, this is based on a dynamic mathematical and computerised model which can be adapted to suit changing needs, according to the project director, Professor Ilhan Tekeli of the Middle East Technical University.

Quite apart from pollution, there now is a strong urge towards decentralisation as a result of changing housing preferences towards cheaper land outside the city with integral block infrastructure, organised industrial estates, and increased car ownership and expanded bus services. The future development of Ankara will be taken out of the conurbation to a series of satellite new towns with populations of about 250,000 around a ring road enclosing a green belt. If the plan works, the horizons for Ankara's citizens can only grow brighter.

Deputy Prime Minister Ali Bozer: "I am a liberal. My policy is private sector-based"

PROFILE: ALI BOZER

Elder statesman of the ruling party

THE emerging senior statesman of the ruling Motherland Party (Anap) – and a possible candidate to replace President Kenan Evren – is the new Deputy Prime Minister Mr Ali Bozer.

He was promoted in the post-local election cabinet reshuffle in March from Minister for EC Affairs, a responsibility he continues to hold and one on which there is general all-party consensus in parliament.

Mr Bozer's experience in European affairs is manifold, even though Ankara, his own and the Turkish republic's birthplace in the 1920s, has been his home for most of his life. He started in Switzerland in the late 1940s preparing for a law thesis, spent much of the 1950s in legal academia in Ankara, and after a spell in industry, practised international law and became a judge at the Human Rights court in Strasbourg. He is a member of the French Legion of Honour.

His first ministerial appointment was as Monopolies and Customs Minister under the military from 1980-83. In the return to civilian rule, he entered parliament under the banner of the now-defunct National Democracy Party, but after its dissolution joined Anap.

"I am a liberal," says Mr Bozer firmly, placing himself in the centre of Anap's parliamentary group. "My policy is private-sector based – through the private sector, income dis-

'Inflation must not be brought to heel too rapidly, for fear of the social cost'

tribution has to be well-balanced, social security has to be assured, and I have a very serious respect for human rights."

On human rights, he agrees that there are some specific individual difficulties, and that Turkey has to pay attention to criticism from abroad in order to improve its human rights image. "But our system compared with Europe is, broadly speaking, not very far off," he adds.

His commitment to social affairs might make him an acceptable presidential candidate for the main opposition Social Democratic Populist Party (SHP), failing an early general election before the presidential selection in November, observers say.

Although he sees inflation as the most pressing problem of the Turkish economy, he believes it should not be brought to heel too rapidly for fear of the social cost that might be incurred.

On Turkey's application for membership of the European Community, he says the EC Commission is dragging its feet.

"We are planning to start negotiations before [the creation of the Single Market in] 1992," he says, although agreeing that the question of full membership cannot be solved overnight.

"We have to know where we are in order to choose one or other of different technologies. We want accession after 1992, or in a reasonable period. If it takes too long, it will be difficult to adapt Turkey to a Single Europe."

Jim Bodgener

PROFILE: SULEYMAN DEMIREL

Politician with punch

THERE is something of the veteran heavyweight about Mr Suleyman Demirel, leader of the True Path Party. It is in his bearish girth, an expression which seems constantly to be taking some pugilistic measure and in his ability to bounce back off the ropes still punching.

In the March local elections, for instance, Mr Demirel's party won 25 per cent of the vote, a surprising 4 per cent clear of Mr Turgut Ozal's ruling Motherland Party (Anap). Although this fell short of the 28 per cent tally of the Social Democratic People's Party, led by Professor Erdal Inonu, Mr Demirel's was the moral victory.

His success in gathering disaffected Anap votes opened for the first time since 1980 the prospect of a real battle for leadership of Turkey's political right, on which the balance of power in the country has fallen since before the 1950s.

The result proved that Mr Demirel is still capable of swinging a hefty blow, even at 64 and after 25 years as a political leader.

Clearly relishing the momentum received in the local polls, he bridles theatrically at suggestions of a political rebirth. "I did not die, so how can this be a rebirth?" he emphasises. "I do not give up."

He has had cause enough to give up, however. His reign as prime minister was twice ended abruptly by military intervention, in 1971 and 1980, on both occasions when activists of left and right took their politics and guns to the street. After the 1980 coup, Mr Demirel was banned from active politics until 1992 under an article of the constitution drafted by the military. He was permitted no political links and none of his speeches was reported.

However, the article was narrowly overturned in a 1987 referendum and Mr Demirel slipped comfortably back into mainstream politics by replacing Mr Husamettin Cindoruk as leader of the True Path Party.

But Mr Demirel's political absence proved more official than actual. A powerful speaker, with a homespun turn of metaphor, Mr Demirel drew large and enthusiastic crowds at unofficial rallies across rural Anatolia, the heartland of his support. His followers call him

Suleyman Demirel, leader of the True Path Party, beneath a portrait of Kemal Ataturk

"Baba", or father.

Mr Demirel makes good political use of his roots in the poor, opium-growing town of Islamkur in northern Anatolia. He moved west as a young man, however, to study engineering in Istanbul and embark on a career with the state waterworks. He then started a lucrative business as a building contractor.

He was drawn into politics, he says, during the turmoil which led to the coup of 1961, after which deposed Prime Minister Adnan Menderes was hanged and his Democrat Party dissolved.

"There was no one left who was interested in the rights of my people," says Mr Demirel. "I had to take the flag and continue."

The Democrat Party flag had been the ensign of the shift from the one-party state of Mustapha Kemal Ataturk to multi-party democracy, and it was claimed after 1961 by the Justice Party. Mr Demirel, a professed conservative and perceived moderate, was elected leader in 1964 and became prime minister a year later.

It was the first of six spells as premier between 1960 and 1980, as he and Mr Bulent Ecevit, leader of the People's Party, exchanged power while a series of loosely tethered coalition governments gathered and collapsed.

At the peak of its popularity, the Justice Party could command more than 50 per cent of the popular vote. Mr Demirel wins his political persistence from the conviction that this is a natural Turkish constituency which the military shake-up after 1980 has disguised but not destroyed. It is, he also insists, his constituency. "Where has that vote gone? That's what I'm after, and I'll get it."

Much of the vote has gone to Anap, a coalition party of religious, right-wing and liberal interests held together with the glue of power, the formation of which was permitted by the army before the 1983 elections.

At its helm was Mr Ozal, plucked from the job of state planning chief to which he had originally been appointed by Mr Demirel. Mr Demirel is now intently picking at the glue binding Anap.

There is little to the untutored eye to differentiate the broadly liberal economic and generally conservative social policies of Anap and the True Path Party. But Mr Demirel is alive to the fact that while government should be broadly accountable, opposition is free to choose its targets. And as the rows over inflation and workers' pay dominate the political agenda, he is drawing a sharp contrast between Mr Ozal, the technocrat seen as aloof from the masses, and Baba, the populist.

During the recent televised debate between the three political leaders, for instance, Mr Ozal defended his record by holding up a series of economic charts and graphs. Mr Demirel brandished letters from constituents saying they were starving under the burden of high prices and low pay.

Mark Nicholson

Radical reforms have expanded higher education but imposed uniformity, writes **Mark Nicholson**

Question marks over universities' growth

STATISTICS on Turkish universities since their radical reform in 1981 tell a story of explosive growth and dramatic improvements in standards.

In 1980 there were nine universities, most of them in western Turkey; today there are 29 spread across the country. There were 260,000 students; today there are 550,000. There were 3,100 teaching professors; now there are 5,600. Only 55 per cent of students passed their final examinations; now 85 per cent pass.

No one disputes these figures. But critics of the reforms claim they tell only half the story. The other half, they say, is that of an erosion of university autonomy and a deadening imposition of uniformity.

The reforms were made under the first law passed by the army after its 1980 intervention. In the military view, the universities, often the scenes of political violence during the late 1970s, had cradled the extremism that forced the army to intervene. Universities were among the first institutions to feel the imposition of military discipline.

Officially, 68 professors were dismissed for allegedly fomenting unrest. Less officially, at least 2,000 university staff are thought to have left their posts under the new regime, although some have since begun to return.

The task of overhauling the laws governing higher educa-

In the military view, the universities had, in the late 1970s, cradled the extremism which forced the army to intervene in 1980

tion was then delegated to Professor Ihsan Dogramaçi, an academic paediatrician and formidable organiser who had set up Ankara's Haçepette University, and who was close to President Kenan Evren.

He created a Council of Higher Education (YOK is its Turkish acronym), to serve as a national board of governors for the universities and, it was claimed, ensure their autonomy by acting as a buffer between them and the Government.

Prof Dogramaçi, YOK's president, insists the council cannot be imposed upon by any government ministry, nor can it impose on any university. Nevertheless the council, as well as having a planning and administrative role, also decides on the establishment of universities and colleges, approves budgets, recommends where subsidies should be paid and nominates the four candidates for rectorships from which the president will choose.

Of the council's 25 members, eight are university staff selected by the head of state, eight are civil servants chosen by the Council of Ministers, eight are academics chosen by a board of rectors and professors, and one is chosen by the military general staff. For Prof Dogramaçi, the preponderance of acadamics on the council assures its independence from government. For critics, though, the hierarchical system keeps out any critics of the status quo.

With YOK in place to administer the changes, universities and colleges were opened across previously deprived eastern Turkey throughout the 1980s. To fill them with teachers, the post of assistant professor was created, to supplement existing job titles. The number of such posts in each institution was then tightly controlled and promotion within universities limited so that teachers were forced to move to the new colleges. Laws also required students to attend lectures and lecturers to compile teaching logs.

The resulting growth and improvement has been, according to the statistics, remarkable. But there have been charges that the criteria have been softened.

The breakneck growth, says Mr Shahin Alpay, education correspondent of Cumhuryet newspaper, led to overcrowding, sharp rises in student/teacher ratios and falling morale as promotion came to depend on moves to unpopular parts of Turkey. Research has also suffered, he says, as a result of the increased teaching burden on professors.

Moreover, the growth took place against a fall in the proportion of government spending on education. In the 1970s this was 15 per cent of the budget – today it is 9 per cent.

Established universities, such as the Middle East Technical University (METU), report annual falls of more than 10 per cent in their allocations. METU, in particular, bridles at financing rules which mean each department's request can be scrutinised for approval by YOK, where once all budgeting was done in-house from a block grant.

"The less developed universities have recorded some progress, tangible progress which they could not have without this law," says Mr Omer Saatcioglu, METU's rector. "I could not say the same about the more established universities."

This control over budgets also fuels charges that far from shielding the universities from the Government, YOK is its means of ensuring control. "YOK is in a sense the ministry of higher education," says a leading Istanbul academic who prefers to remain anonymous. "They claim to be above politics and thus cannot be a ministry, but what's in a name?"

He is most critical of what he calls the sterilising effect of the attempt to impose uniformity. Bans on political activity have, he says, taken much of the soul out of universities.

Breakneck growth led to overcrowding and falling morale as promotion came to depend on moves to unpopular places

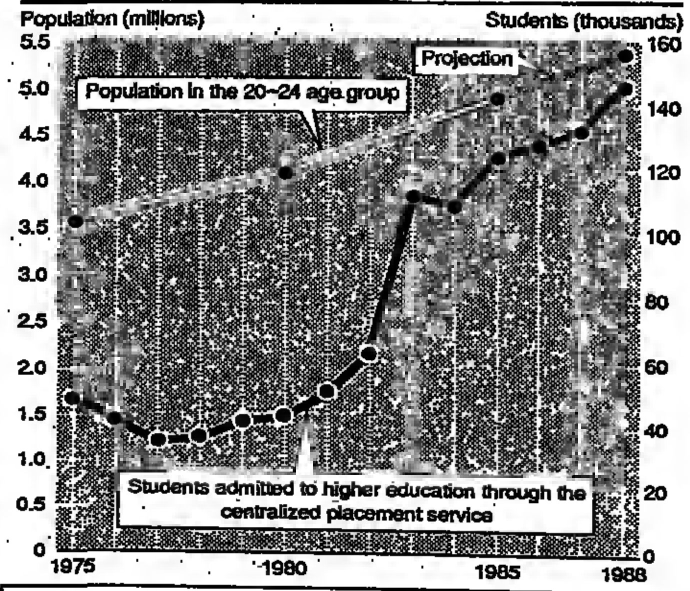
New administrative requirements have alienated staff.

"It does seem to have been an attitude against university autonomy," he says. "Now there's an absolute hierarchy of administration, an authority where the administrator is stronger than the professor, and this goes counter to the whole idea of a university."

He adds, though, that YOK's zeal for blanket interference has waned in the past two years, partly because of the compliance of the universities, but partly also because of the sustained criticism of many of its practices.

Indeed, all three leading political parties agree the laws should be changed to give universities more autonomy. The laws are in any case very much the baby of the incumbent president, and there is a growing feeling they are unlikely to survive long after his term expires in November.

Admissions to higher education



Trade unions are finding their voice, writes **Mark Nicholson**

Workers flex their muscle

POLICE gunshots that left a man dead and 40 hurt after a May Day rally near Istanbul's Taksim square, raised chilling echoes of the violent clashes between unions and security forces before the 1980 coup, notably of May 1 1977, when 35 people were killed during a rally in the same square.

The comparisons appear more compelling because this year's violence followed a spate of union unrest unprecedented since the years preceding the coup. Mr Turgut Ozal, the Prime Minister, hard pressed by a public sector pay campaign embracing 600,000 workers, himself evoked the spectre of 1977 before this year's May Day. "Nobody has yet forgotten the bloody Taksim incidents," he said.

Such a comparison with the "anarchy" of the late 1970s is misleading, though, partly because the Government'a tough crackdown on unions since 1980 has largely succeeded in ending their overtly anti-anthoritarian political activity, but also because the recent union militancy has found its strength by sticking tightly to the law and narrowly to the issue of pay.

This year's May Day violence was the worst since before the 1980 coup

"The Government wanted to exploit May Day," said an official of Turk-Is, the biggest union confederation, after the clashes.

"It expected mass demonstrations. But Turk-Is said no, we would not take part because we already had full public support for the wage claim and we felt that Ozal might try and provoke things."

The unions are cantious because they, too, remember the events of the late 1970s. Among the army's first steps on taking control in 1980 was to arrest union leaders en masse, notably those of Disk, a leftist confederation that had splintered from Turk-Is in the 1960s.

The confederation and its 28 affiliated unions were disbanded and more than 1,400 of its members were tried on charges of trying to establish a one-class state. More than 260 were sentenced to as much as 10 years' imprisonment. Many of those released returned from detention with allegations of torture.

Labour laws were also tightened in 1983, forbidding strikes in key industries, such as energy and banking, and making it illegal to strike in all others except at set stages of the bargaining process. Unions were prohibited from having any links with political parties.

The extension of unionism was also constrained by laws awarding recognition only to unions representing 51 per cent of a workplace and 10 per cent of an industry. The extent of unioniam, therefore, has remained low, with only 2m of Turkey'a 19m workers organised, split evenly between the private and public sectors.

One effect of the crackdown has been to concentrate what power the unions retain within Turk-Is, which covers 1.8m workers. This has arisen partly as members of former Disk unions joined the confederation, having few other places to go, and partly because the formation of rival groups has been constrained hy the restrictive recruitment laws.

The Government's tough line on the unions has also encouraged their considerable prudence in pursuing claims for better pay and conditions.

The present wave of protests started at the beginning of this year as the collective bargaining cycle began for the country's 600,000 pnblic sector workers, mostly employees of the State Economic Enterprises established under Kemal Ataturk. Pay was the only issue which burned on the agenda.

Since Mr Ozal took control of the economy in 1980, wages have been hit sharply by inflation: an erosion towards which the Government has turned a blind eye at a time when it has also been keen to promote foreign investment by selling the benefits of Turkey's low wages.

Official inflation rates for this year and last are 64 per cent and 80 per cent respectively, hnt unofficial figures put the rates between 80 per cent and 100 per cent. Wage settlements in both private and public sectors, however, have failed to keep np even with official figures. Against a base of 100 in 1980, real wages have fallen to 56.66 this year, according to the Government's own figures.

A worker in the state-run petroleum industry, for instance, can today count on earning a gross TL200,000 (£60) a month by working overtime every weekday and on Saturdays and Sundays. This is a daily average of about TL7,000, which is less than the price of a kilo of meat.

This wages squeeze, tighter still in other industries where average wages run nearer TL120,000, has led to a grassroots militancy which has surprised union leaders – notably those in Turk-Is. The protest has come, in the phrase of Ms Sukran Ketenci, labour editor of Cumhuryet newspaper, "as a sweeping wave from the bottom".

The momentum has also been helped by grassroots dissatisfaction at the lack of success in previous wage campaigns. The last set of public sector wage negotiations came to a head this time last year, and Turk-Is drew up an action plan of rallies and national work stoppages to press their campaign.

This stage of the negotiations, however, coincided with many Turk-Is leaders, incinding that of its president Mr Sevket Yilmaz, reaching the end of their legally permitted terms of office.

Recent trade union militancy hes found its strength by sticking tightly to the lew

In the event, Turk-Is reached agreement with the Government on a framework pay deal and the disruption plans were shelved. At the same time, the Government extended by a year the service terms of the confederation's leaders.

The view that the Government and Turk-Is had hatched a comfy deal, during what Ms Ketenci calls "ceremonial discussions rather than collective negotiations," was widespread. During this year's bargaining, therefore, workers were steeled to take action regardless of their leaders. "This time they have decided to undergo some hardship, bnt get something out of it," says Ms Ketenci.

The npshot has been a spring campaign of "passive protest"; passive, because the workers are insisting on actions kept firmly within the laws. One day in April, for instance, 30,000 public sector workers simultaneously excused themselves from work for medical visits, claiming illness through low pay.

Other workers have marched barefoot through the streets of Ankara, thonsands have blocked the Ankara-Istanbul highway, ferries and buses in Istanbul have been brought to a standstill by work-to-rule.

On May 4, 24,000 steelworkers in the Celic-Is union called tha first strike of the campaign, closing down the state-owned mills at Karabuk and Iskenderun. Leaders of Turk-Is, who the preceding day had formally called for a two-year wage deal of 170 per cent and 60 per cent plus substantial banefit packages worth an extra TL100,000 a month, predicted that unless the government met the steelworkers' demands, a wave of further strikes would follow.

"This is new for Turkey, and no-one knows how it is going to end," says Ms Ketenci. "It is the first time the workers have felt their strength and it will be difficult to stop them."

Mr Ozal, who cut his negotiating teeth while working for the notoriously tough engineering employers' federation (Mess) before joining government, has given no ground in the wage talks. The Government has offered rises of 120 per cent and no more, claiming that this makes np for losses during last year's inflation and would account for price rises in 1989.

Union leaders are confident, though, that Mr Ozal will be forced to concede higher pay to win back some of the political ground he lost in the March local elections. Furthermore, the unions' campaign has won popular support to the extent that even bnsiness is beginning to concede their case.

"Labour is acting very maturely and it is felt that wages are very low," says one leading industrialist. "So far they have been acting within the law, and as long as that's the case Ozal will have to meet their demands."

CONSUMERISM

Rise of the new Young Turks

ONE OF the features of Turkish life which takes the visitor by surprise is the unabashed enthusiasm of the Turks for consumer goods. There seems to be an insatiable appetite for Cross pens, Sony television sets, Nike or Converse sports shoes and other famous brandmarks.

Few other countries are so brand-conscious or so loyal, despite the stiff surcharges on imported goods and a trade regime which still means that Turkey is absent from those world-wide lists of international service centres at the back of guarantee booklets.

Consumerism is, however, a relatively new arrival in Turkey. It was only in the 1970s that something of a mass market began to emerge in the national economy. Even now it is still small and marginal.

"For most sophisticated goods and financial services the real market in Turkey is still little larger than 2m," says Mr Gungor Uras, a board member of Aksigorta in Istanbul and adviser to the Sabanci Group.

But the 1980s have shown that the number of would-be consumers is growing. Magazines snch as Nokta and Erkekçe, the latter a sort of home-spun Playboy, reflect the tastes of large numbers of students and young middle class employees with a taste of expensive goods, electronic machinery, fashionable clothes and consumer durables.

It is cleer thet e potentially strong market for consumer goods exists in Turkey

It is obvious that – despite very low incomes by European standards – a potentially strong market for consumer goods exists in Turkey.

To find out more about the new market, DAP, a large private market research group, has launched a detailed probe into the tastes of Turkey's middle class and in aspirations and life-styles. The study highlights dramatic changes in the values of young urban Turks between the ages of 15 and 35, particularly among those who have graduated from high school.

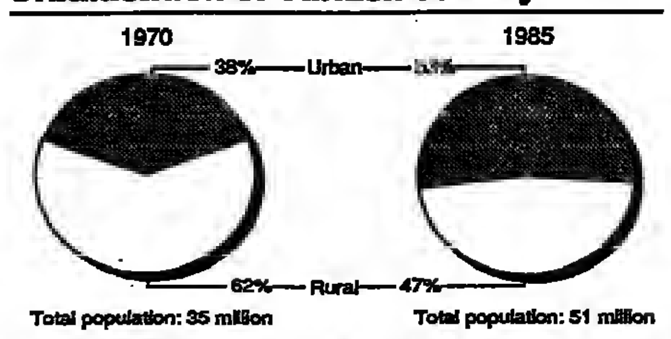
Out of the study emerges a profile of a generation of "new young Turks" – upwardly mobile, urbanised, educated and deeply affected by television advertising. Television, most observers agree, has been the catalyst for many recent changes in Turkish society.

"Television has been one of the greatest revolutions in this country," says a western diplomat. "Even in the most remote areas of the country, people have a television set." Television broadcasting was established in Turkey 30 years ago, with the development of a nationwide network put in place some 12 years ago. Saturation has now reached close to 100 per cent.

Channels carry extensive commercial advertising both for domestic and foreign goods and services and TRT, the main Turkish network, supports itself entirely through paid commercials. Because of this, the DAP study says, "it is not surprising to see significant changes in the values and life-styles of the new media generation, the urbanised 15-35 year-olds who have grown up with television."

The study points out that the present generation is the first to have the opportunity to buy the goods and services advertised and who have the opportunity to copy some of the life-styles depicted on television. None of this would matter if the numbers were insignificant. But they are not. Out of a total population of 55.6m there are some 30m between the ages of 15 and 35. Just over half of this number is urbanised (10.8m) of which 5.5m live in the largest cities – Ankara, Istanbul, Ismir, Adana and Samsun.

Urbanisation of Turkish society



Between 1970 and 1985, Turkey experienced a 60% growth in population Source: DAP

Overall, about 25m Turks now live in towns with populations of over 50,000. They constitute a rapidly-growing market, for the migration of younger people to the cities continues to push np the urban population by about 4 per cent a year.

Education is another major force for change. Since 1978 out of a total population of 50.6m, 2.75m Turks have attended university, about 4.5m have been to Lise (high school) and more than 10m have been to middle level school (12 to 15 years) – several times the nnmbers attending in previous generations.

The DAP study contends that at least another 2m Turks educated in urban areas will follow the lead established by their edncated metropolitan "pace-setters." It concludes that this group of young middle class consumers makes up almost 40 per cent of the young urban population.

"As a group, whether high school or university educated, the new emerging middle classes are self-conscious and conscious of Turkey as an industrial society. Thay have learned from television the joy of choice among consumer goods, the joy of new forms of leisure.

"Mass communication media presents to young Turks a model of an internationalised middle class consumer world. Many are strongly influenced by this model of what to be and how to live. Millions are changing how they think, how they feel, how they learn and what they want to do with their lives," says a consultant for DAP.

The study notes that in the large Turkish cities a rapidly developing economy has generated a new class of wage earners – sales-people, middle and lower managers in large and medium-sized companies, shop assistants, office clerks, technicians and skilled service workers in the tourism and hotel industries. These workers see themselves as being a rung above workers, the *gecekondu* (shanty town settlers), farmers and peasants.

"They are Turkey's new 'transitionals' who want to model themselves after the suited and educated professionals and executives or international elite of working men and women they see on television and in movies on their video machines," the study says.

The most radical changes found by the study were in attitudes to pursuing the consumer culture and work expectations. Most "new young Turks" are participants in the new consumer society, think that choice is their "right" and that change is always for the better.

"They believe that foreign products are superior to Turkish products – better made and longer lasting."

The new generation of Turks is urbanised, educated and deeply affected by television

The young men and women of this group see career and appearances rather than money as signs of achievement and status. New young Turks are convinced that career and professionalism are the way of the future. "Executives in Turkish companies do not enjoy a good reputation and are blamed for many bad practices. They are perceived to be influence peddlers, show little commitment to Turkey, are insular and reluctant to learn western practises."

In contrast, new young Turks admire foreign companies, says the consultant, adding that "most Turks feel that in Turkey bosses treat their workers badly. Yes, but what has this to do with the price of puffed wheat?"

Caroline Southey

COMMERCE AND INDUSTRY

A sharp contraction

RECESSION has shrouded commerce and industry this year, stoking fears that the boom of 1986 and 1987 has slid into stagflation. However, there are encouraging indicators for the medium-to-long term.

Demand shortages have been the worst blight on industry, followed by financial difficulties, expensive raw materials, and labour problems. Most recent trade union unrest has surfaced in the public sector, private sector wage increases generally being satisfactory to employees.

Shop shelves are hardly empty, but this masks a deep decline in consumption. While the number of small and medium-sized companies going out of business rises, the larger companies have reduced their operations.

A survey from the Istanbul Chamber of Commerce and Industry shows that manufacturing contracted by 1.9 per cent in 1988 compared with 1987, the first time this has happened since 1980.

Demand for consumer durables has been hardest hit, as ordinary Turks pare their spending options. This has been reflected in the car sector. Whereas a year ago there was a six month wait for locally-assembled cars, in the first quarter of 1989 demand for locally assembled vehicles has fallen from a point where it exceeded local production capacity to 71 per cent of output, while actual production has also declined by 21 per cent to 25,486 units, according to the Automotive Industry Association. In the white goods sector, production over the same period for goods such as refrigerators has also dropped by between 10 per cent and 35 per cent.

Although borrowing costs to industry have come down from the peak reached last autumn of between 140 per cent and 150 per cent, they are still onerously high at around 100 per cent. Commercial banks turned off the money taps last year to business as more and more companies became a bad risk, although there is some indication this is easing. Not surprisingly, with inflation around 60-65 per cent, business organisations have warned of enveloping stagflation.

Chastened by setbacks in local elections in March, the government has responded with an increase in the funding of the new Export-Import Bank of Turkey (Eximbank) to a total of TL3 trillion (£878m) this year. This has been accompanied by credits in the short-to-medium term to export-oriented industries designed to ease bottlenecks and allow modernisation and expansion.

Alongside this is some stimulation of the consumer durables industry from renewed government sponsorship of mass housing construction, although this spur to the overheated boom in 1986 and 1987 will be carefully controlled now, officials say. The growth of consumer credit as an alternative to corporate lending may also prod demand, officials add. But as yet, this is an embryonic development confined to the banking sector.

Independently of state inputs, there are other signs of hope. One is a moderate bull market on the Istanbul stock exchange, following the bearish period for equities throughout 1988.

Dividends from stocks and shares once again are attractive compared with deposit interest rates and at a par or negative to inflation and an overvalued Turkish lira. The stock exchange's index has

Sukru Yurur, Minister of Industry and Technology

risen to around 500 from last year's depressed average of around 370, while daily trading volumes have edged gradually upwards to around TL1bn from about TL300m. Even dealers on Istanbul's illicit but tolerant free foreign exchange markets have switched across to the exchange, though their rough and ready presence may be short-lived.

The hope is that demand will push up prices sufficiently – most shares are traded at around half book value now – to persuade more of Turkey's

Shop shelves are hardly empty, but this masks a deep decline in consumption. While the number of small and medium-sized companies going out of business rises, the larger companies have reduced their operations

family ownership of industry and commerce to release their jealously guarded equity on to the market. "It's coming around," says Mr Muharrem Kersli, president of the exchange.

Equities generally account for a mere 2-5 per cent of their total portfolios, confounding government incentives like tax exemptions which were originally designed to encourage the funds as an interim vehicle for stocks and shares. Competition from the rapid growth of mutual funds established by the banks is now an increasingly attractive alternative.

Real rates of return on mutual fund certificates are between 50 per cent and 60 per cent, compared with around 10 per cent on sight deposits, says Mr Sukru Tekbas, president of the Capital Markets Board, an Ankara-based state watchdog. The total portfolio of the mutual funds in late April was about TL300bn, comprising mainly short-term commercial paper and treasury bonds and bills; these operations rather than medium-long term savings in stocks and shares.

A durable rally could help the government's ambitious privatisation plans, which have somewhat strayed from the true spirit of denationalisation – wider public share ownership – through sales of core blocks of shares to single investors or investor groups because of the slack capital markets.

These by and large have been foreign-led, leading to opposition criticism that the government is selling off the state's most valuable assets to foreign capital, a telling barb to the deep chauvinism of most Turks, and a minor issue in local election hustings.

One such privatisation issue which provoked accusations of a cheap disposal was the sale of former state cargo and charter airline Bogazici Air Transport (BHT) to a consortium fronted by Eire's Aer Lingus.

In the next year, parts at least one of the first fully fledged state economic enterprises (SEEs) are likely to come to the market, as are the state petrochemicals agency Petkim, and leather and porcelain conglomerate Sumerbank, according to Mr Okkes Ozyugur, head of the Mass Housing and Public Participation Administration (MHPPA), responsible for the privatisation programme.

These are mini-industrial sectors in themselves – the replacement value of Petkim alone, for example, is between $3bn and $4bn. They will be broken up into more digestible pieces – but the government will probably sell large core holdings of around 30 per cent to maintain management continuity, says Mr Ozyugur.

Another fast growing salve to industry's financing deficiencies after a slow mid-1980s start is leasing. By 1993, it could account for 30 per cent of total capital investment in Turkey, according to Mr Derek Roberts, general manager of Iktisat Leasing.

Domestic leasing will probably take on a temporary added attraction following a treasury ruling against fresh cross-border leasing other than for essential purposes, ostensibly designed to cut down on foreign exchange exposure. However, deals involving aircraft, where the asset is a foreign exchange earner and has a significant and durable foreign exchange resale value, will probably be exempted.

But perhaps the most encouraging trend is that actual foreign investment inflows more than tripled in 1988 to total $352m, according to Dr Ibrahim Cakir, the head of the foreign investment department in the State Planning Organisation. The figure is targeted to rise again this year to around $450m, based on the 53 per cent increase in 1988 over 1987 of foreign investor permits issued with a total value of $824.4 million.

Indeed, in the long run, economic compatibility with the EC may ensue, despite Turkey's short-term problems, from natural selection and multi-national symbiosis – if political instability does not nip this in the bud.

Jim Bodgener

Mark Nicholson on evidence of a change in the economic climate for traders

Export revival starts to lose its way

TURKEY's export boom, the engine of its economic revival in the 1980s, has ground to a halt.

The big trading companies, which conduct almost half of Turkey's trade, say export values for the first quarter of this year are sharply down on 1988. The optimists among them suggest Turkey will be fortunate to hold sales at last year's levels. Pessimists say they could tumble by a fifth.

The first quarter fall is attributable largely to the Government's removal last year of an export tax rebate scheme which had contravened Gatt rules. The rebate covered about half of Turkey's exports and offered traders reimbursements worth 4-8 per cent of the value of overseas sales.

It proved a significant and successful incentive, not least because it gave exporters a handy margin which they could pass on to producers or distributors as market needs dictated.

Exporters lament the rebate's passing, but they acknowledge they could not bask forever behind direct subsidies. However, they see the removal of the incentive as evidence that for the first time since 1980 the political and economic climate may have turned against them.

The more optimistic suggest Turkey will be fortunate to hold sales at last year's levels. Pessimists say they could tumble by a fifth

The biggest fear among traders is that Government policies, so long the tail-wind for their success, may have shifted decisively from them and towards the country's producers. This, they say, could kill export growth.

"Exports will continue steady or decline," says Mr Hasan Esen, general co-ordinator of EDPA, a textiles and chemicals trading house with exports of $229m (£136m) in 1987. "But they are not going to increase, even if you subsidise industry at the production level. There's no point increasing capacity if the producer doesn't know where to sell."

The distinction between producers and exporters has been forced in Turkey by policies encouraging the creation of trading companies on the model of Japan's sogo-shosha groups, such as Mitsubishi Corporation and Mitsui and Company. Under a 1980 decree, such companies were given preferential credit and import arrangements if they exported at least $15m worth of goods a year and recorded sales growth of 10 per cent a year.

Today, 29 such trade groups conduct 45 per cent of Turkey's exports. They range from state-owned groups such as Sumerbank and Etibank, to the trading arms of Turkey's biggest industrial groups, like Ram, which trades for the Koç group. Such trading houses are not permitted to manufacture in their own right.

These companies have been the chariots of Turkey's export charge, and the Government levelled the field for them in the early 1980s by sweeping away the country's fusty foreign exchange and trade rules. The result has been a staggering annual average rise in exports of 22 per cent between 1980-87 to $11.84bn, culminating in a balance of payments surplus last year of $1.5bn, Turkey's first since 1973.

There has also been a substantial shift from traditional agricultural exports towards industrial goods and raw materials. In 1980, for instance, crops, fruits, vegetables and other agricultural goods made up 57.5 per cent of all exports. In 1987 the figure was just 18.2 per cent, while the proportion of manufactured goods had risen from 36 per cent to 79 per cent.

Much of that growth was met by harnessing production capacity which had lain idle in the slow growth years of the pre-1980 closed economy. Today, though, the government points to a small rise in surplus capacity over the past two years (from 74 per cent to 75 per cent) to argue that export growth will in future best be encouraged by levelling direct incentives at producers. It has therefore introduced a series of fuel and power subsidies for exporting manufacturers.

IMPORTS BY COUNTRY ($m)

	1986	% share	1987	% share	1988	% share
West Germany	1,771.8	16.0	2,108.8	14.9	2,054.4	14.3
US	1,176.9	10.8	1,366.1	9.8	1,519.7	10.6
Italy	886.0	8.0	1,076.1	7.6	1,005.7	7.0
Iraq	768.7	6.9	1,154.0	8.2	1,440.8	10.0
Japan	684.2	6.2	860.0	6.1	554.8	8.9
France	545.3	4.9	607.8	4.3	828.8	5.8
UK	518.9	4.7	697.4	4.9	739.1	5.2
USSR	352.8	3.2	307.0	2.2	442.6	3.1
Belgium	310.0	2.8	402.7	2.8	477.8	3.3
Iran	212.3	1.9	947.6	6.7	659.8	4.6
TOTAL OF TOP 10	7,228.7	65.2	9,527.5	67.3	9,723.5	67.8

Source: Turktrade

MAJOR EXPORT MARKETS ($m)

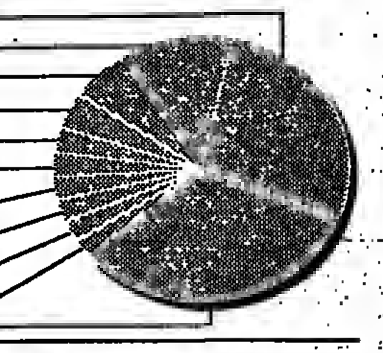
	1986	% share	1987	% share	1988	% share
West Germany	1,444.0	19.4	2,183.8	21.4	2,149.0	18.4
Iraq	553.3	7.4	945.3	9.3	986.1	8.5
Italy	579.8	7.8	850.6	8.3	954.7	8.2
US	549.3	7.4	713.2	7.0	760.8	6.5
UK	334.2	4.5	541.4	5.3	576.1	4.9
Iran	564.4	7.8	439.7	4.3	545.7	4.7
France	298.7	4.0	499.8	4.9	498.5	4.3
Saudi Arabia	357.4	5.1	408.4	4.0	355.2	3.1
Netherlands	222.4	3.0	280.2	2.7	351.1	3.0
USSR	140.6	1.9	169.5	1.7	291.4	2.3
TOTAL OF TOP 10	5,044.1	68.1	7,031.5	68.9	7,452.5	63.9

Source: TurkTrade

Leading exports, 1988

Figures in US$ million

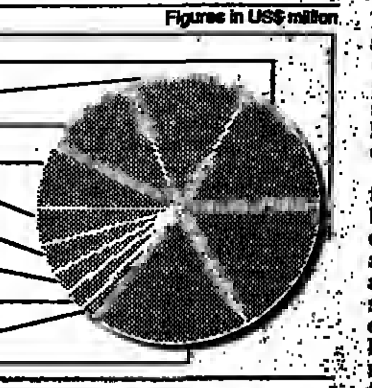
Textiles	3.201
Iron and steel products	1.457
Chemical products	0.734
Leather clothing	0.514
Plastic material & rubber	0.351
Hazelnuts	0.351
Petroleum products	0.331
Machinery	0.332
Electrical machinery	0.294
Tobacco	0.266
Others	



Leading imports, 1988

Figures in US$ million

Crude oil	2.434
Machinery	2.400
Chemical products	1.984
Iron and steel products	1.655
Electrical equipment	1.075
Transport equipment	0.690
Plastic material & rubber	0.525
Other metallic assets	0.411
Petroleum products	0.343
Coal	0.251
Others	



Also, and to quieten the exporters' cries that they are being neglected, the government last year revamped the State Development Bank to produce Eximbank, an export credit and insurance agency loosely modelled on the UK's Export Credit Guarantees

There has been a substantial shift from traditional agricultural exports towards industrial goods and raw materials

Department. The small and sharply managed unit will offer a range of pre and post-shipment credits, insurance schemes and guarantees to both export companies and exporting producers.

Neither move impresses the trade companies, though. To begin with, they say that however worthy or brightly managed the Eximbank's aims, the agency's resources are too small. Under its performance credit scheme, for instance, the bank offers exporters which sustain annual exports of more than $100m, rolling credits worth 5 per cent of overseas sales. Exporters say this should be nearer 20 per cent to provide a true incentive.

But the apparent policy shift towards producers draws the greatest flak. "We're not saying we should have had tax rebates for good," says Mr Murat Tuna, deputy secretary general of Turktrade, the trading companies' association. "On the other hand, we must increase exports, and to do that the incentives should be elsewhere for us."

Mr Tuna explains that many traditional Turkish markets have matured and some, notably the Middle East, have begun to dry up altogether. EDPA, for instance, says its Middle East exports have fallen

The Government has been forced to turn its attention away from exporters to other competing priorities

by 40 per cent in the past two years, largely due to belt-tightening in Iran and Iraq after the Gulf war.

Export growth, says Mr Tuna, depends more on opening new markets than on boosting output. "If companies could export by themselves, that would be ideal," he says. "But they would not survive. Developing and entering foreign markets needs high skills and knowledge about those markets – and we have that."

As a starting point, therefore, Turktrade is lobbying for the government to allow 2 per cent of a trading company's marketing costs to be tax deductible. It is also seeking subsidies or direct support for companies holding or attending international trade fairs and exhibitions.

"These are the normal ways of supporting exporters in other countries," says Mr Tuna. "We are not expecting to sit back and receive the support of Government; we just want to see a decisive system applied."

Decisive is perhaps the key word. Much of the exporters' present apprehension stems from the feeling of political uncertainty and paralysis, unfamiliar in 1980s Turkey, which has gripped the country since Mr Turgut Ozal's party performed unexpectedly poorly in the recent local elections.

For the past nine years, Turkey's exporters have enjoyed a privileged role in an era of political stability and consistency of purpose. Now, though, the Government has been forced to turn its attention to the competing priorities of defeating inflation and sustaining its authority in the face of urgent demands to improve workers' wages.

"From our members there is a strong feeling that the Government cannot move economically at the moment," says Mr Ayhan Copur, Turktrade general secretary. "They are not sure about its future, and they are therefore not expecting much."

Main issues for young entrepreneurs

Challenge of a free market

WESTERN assimilation, secularism, respect for democracy and human rights, and a free market economy: these are the main issues for Turkey's new generation of bright-eyed and energetic, young entrepreneurs. Mostly Western-educated and oriented, the second generation of Turkish business people believe they have a major role to play in their country's political and economic future.

And many of them feel that the challenges that lie ahead are greater than they were for their predecessors, who accumulated their wealth in a closed market economy.

"The free market created a new breed of businessmen who gained experience five times faster than the first generation," says Mr Cem Boyner, the recently elected chairman of the Turkish Industrialists and Businessmen's Association, (Tusiad). Mr Boyner at 33, is the youngest businessman to ever head the conservative lobby.

Preparation for full membership of the European Community is the greatest challenge for Turkey's young entrepreneurs. Pointing out that the application for membership is the only issue in the history of the Turkish Republic to have gained nationwide consensus, Ms Guler Sabanci, the 33-year-old general manager of Kordsa, a Sabanci Holding affiliate, says: "Full membership is not a revolution but an evolution. Full membership will take time and we have that time."

Most young business people don't think Turkey's accession to the EC will take more than 10 years. In the meantime, they feel that urgent solutions need to be found to the socio-economic problems currently facing the country with runaway inflation (to which Prime Minister Turgut Ozal's crushing defeat in last March's elections is largely attributed) topping the list.

The prescription offered by the Tusiad chairman on behalf of his fellow members calls for boosting supply, reducing wasteful public expenditure and raising public revenue through a wider tax base. "There are 4,000 new kids around our breakfast table every morning so, by definition, the Turkish economy has to grow," declares Mr Boyner, adding that growth rates of between 8 per cent and 10 per cent should be the target.

According to Mr Halis Komili, general manager of the oleo-chemicals and edible oils conglomerate, Komili, strengthening industry would not only stimulate growth and employment but would also ensure that Turkey does not become an EC consumer market just for the sake of a couple of billion Ecu in aid.

Meanwhile, young businessmen are keenly aware of the widening gap between low and high income groups which, if left unchecked, could develop into greater and potentially unmanageable social problems. "People shouldn't be worrying about their rent, food, clothing and health. Income distribution in this country has been steadily worsening and this a reality that no one can miss," says Mr Cefhi Kamhi, heir to the white goods and electronics conglomerate Profilo.

While he believes that such problems are for the government to solve, Mr Kamhi is energetically engaged in his own campaign to provide opportunities for bright young Turks through the Young Businessmen's Association which he founded and heads. Mr Kamhi says the aims of the association are to create a support system for small and medium-sized entrepreneurs. The inefficiency of financial mechanisms makes it difficult for young entrepreneurs to start up in Turkey. "We are working on a project to establish venture capital through our own investment company," Mr Kamhi says.

Islamic fundamentalism and another military intervention are cause for much less concern than the erosion of real income in the minds of most young business people. Mr Bulent Eczacibasi, the 39-year-old general manager of the pharmaceuticals giant, Eczacibasi, expresses some unease over the sympathy shown by Mr Ozal and right wing opposition leader, Mr Suleyman Demirel, towards such fundamentalist manifestations as the turban. He says: "That doesn't mean that fundamentalist factions within those two parties and the [fundamentalist leaning] Erbakan's welfare party can challenge the ideals of secularism and democracy in Turkey."

In fact, Turkey's new generation of business people expresses great confidence in the future and believes that most of the country's ills, including inflation, are ones that can be remedied with sufficient doses of political will. Mr Boyner, like many of his colleagues says that following the results of the local elections, Mr Ozal clearly understands what the problems are and realises that he will need to take positive action

Whether Mr Ozal will have the time to do this without recourse to an early election is an issue that that could determine his own political future. Mr Boyner believes that the Prime Minister can survive

"I believe Mr Ozal will have to call early elections," says Mr Eczacibasi. Ms Sabanci agrees, stating that the probable outcome will be a right-wing coalition between Mr Ozal's Motherland party and Mr Suleyman Demirel's True Path Party.

The prospect of such a right-wing coalition government is not one generally welcomed by most Turks: the country's experience of coalition governments has not been a particularly happy one. Hopes rest on a single party forming the next government. Turkey's new generation of business people are quick to emphasise, however, that no matter which party comes into power, Turkey will remain firmly committed to the West and that democracy, secularism and a free market are here to stay.

Amberin Zaman

TOURISM

Hotel boom goes on

RECEIPTS from tourism helped last year to offset slackening exports and enable the economy to turn in a record current accounts surplus. Revenues from the 4m visitors in 1988 boosted earnings by 59 per cent over the previous year to a total of $2,360m. "It was a bonanza," said one delighted hotelier.

Overseas visitors are flocking to a country now firmly fixed on the tourism maps of the eastern Mediterranean. The attractions include a coastline of sandy beaches, a hinterland famed for scenic beauty and littered with historical sites and, especially intriguing, the confluence of Europe and the Orient in the ancient city of Istanbul.

The industry needs central direction from the government if it is not to lose its way

A healthy performance is also expected this year, although earnings may be constrained by a fall in bookings from the UK, where the high rate of interest is likely to reduce numbers to around 450,000 – after a 100 per cent increase in 1987.

However, there is a still strong interest from West German, Austrian and Swiss tourists, who anyway tend to stay in more upmarket accommodation. British tourists in Turkey have developed a reputation for miserly spending outside of their package tours. The average expenditure per tourist generally is around $550.

Yet clearly the industry is in need of central direction from the government if it is not to lose its way, especially in unplanned development outstripping the parallel growth of infrastructure, particularly water and sewerage.

One proposal is that in future, development should be concentrated in special resort cities to maintain accommodation, transport and infrastructure standards.

However, given the inexperience of most local authorities in practice this would probably be overridden by local business and landholding interests, according to some sceptical central government officials.

The best planned and serviced new development so far has been to the west of Antalya in the Kemer region, supported by World Bank advice and funds towards essential infrastructure. The World Bank is also considering a request to provide $300m in financing for infrastructure services all the way round the prime tourist areas on the Aegean and Mediterranean coastlines.

Another telling deficiency is the scarcity of trained staff, though up to now natural Turkish bonhomie has made up for much of the shortfalls. This is borne out by the Tourism Ministry itself, in findings from a sampling of 21,000 visitors in last year's season. Some of its findings are revealing. On balance, most tourists appear to believe they get adequate value for money, and 59.6 per cent classed service as good.

But only 21.4 par cent described their sanitary conditions as good, 32.6 per cent as medium, and – ominously – 30.1 per cent as bad. A reputation for stomach bugs, or perhaps even worse, could eventually restrain the growth of Turkish tourism even more than a lack of accommodation or trained staff.

One telling deficiency is the scarcity of locally trained staff

And that could be important, says a foreign tour operator, given that the trend in tourists is towards middle-income groups, often families, who expect affordable three-star or four-star development, with decent sanitation.

Unfortunately, the concentration on five-star developments to ensure the best returns from building in previously remote locations, coupled with the inexperience of local planning authorities in many areas of overdevelopment such as Marmaris and Bodrum on the Aegean, has led to the sprawl of poorly equipped concrete boxes beneath five-star establishments.

Comparisons with the mushrooming of the package tour market in Spain and Portugal in the 1970s may be valid in terms of buildings, points out one developer, but the difference today is that the package tour visitor expects far more for his or her money.

Because of the high cost of land, Istanbul has also seen a similar overconcentration on five-star hotels.

Ministry figures indicate that in addition to 17 hotels already classed as five-star (though some may in reality may be nearer four), 18 more are currently under construction, and 22 more such projects have been issued with tourism investment licenses. In part the concentration on five-star establishments has also been encouraged by weighted government incentives for the upper end of the market.

Visitors expect air conditioning and international communications

Direction from the top this year, however, has been ad hoc at best, partly because of political upsets and the structural changes in official funding for tourism schemes following the merger of the state-owned Tourism Bank with the Turkish Development Bank.

There has been a considerable amount of bureaucratic inertia and infighting within the Tourism Ministry itself, not helped this year by the division of the Culture and Tourism Ministry just before the March local elections. Nor has the general state of flux been aided by the appointment of a new tourism minister, Mr Ilhan Akuzum, following the reshuffle after the local elections.

All this makes for a disturbing lack of continuity, complain tour companies and hoteliers. What is needed, says a former tourist official, is a central organisation, perhaps attached to the Prime Ministry, to be a one-stop co-ordinating agency with full executive powers, rather than the bureaucratic overlays and divided mandates that presently hamper clear policy implementation.

And it is needed soon. Although 77.3 per cent of the tourists in the ministry sample said they would come again, the industry cannot depend on such good will indefinitely.

Jim Bodgener

AGRICULTURE

Tight balancing act

TURKEY, long known as the bread-basket of the eastern Mediterranean, is entering a critical period in terms of internal and external agro-politics.

On the one hand, the prospect of becoming a full member of the European Community presents immense challenges, while on the ground, the worst drought in years is forcing the government of Prime Minister Turgut Ozal to make some tough decisions: how to keep farmers afloat with front and back-end snpport measurea while importing grains to keep prices down to satisfy urban demand – and also while promising to bring down inflation.

On the positive side, tackling the issue of eventual membership in the European Community has the bureaucrats in the Turkish Agricultural and Rural Affairs Ministry thinking in novel ways. The ministry has now initiated two pilot programmes to define problems, and to suggest solutions to Turkey's compatibility with EC agricultural policy, and especially to the so-called 24 "sensitive" items.

"We are concentrating on cereals and fresh fruits now," says Mr Kamal Bedestanci, point man in the ministry for EC Affairs. "Sensitive areas like livestock will be dealt with later, once we have acquired the knack of dealing with the simpler products."

Of all the issues associated with becoming the 13th member of the European club, few are more sensitive than dealing with the labyrinth of community agricultural policy. In order to cope, Mr Bedestanci has created a "horizontal network" throughout half-a-dozen ministries and institutions to collect and disseminate information related to the EC.

"We are just at the beginning atage right now," Mr Bedestanci explains. "That means translating legal aspects of Community policy, and studying marketing channels. This will increase with time. The main point is not to start from zero when we finally achieve full membership."

The issue of standards, Mr Bedestanci feels, is the least important item on the list. Turkish farmers and exporters have already adapted to European tastes in accordance with market demand.

"Sales generate compliance with standards, and farmers and exporters know how to count," he said.

Such optimism for the future is probably needed in the potato patch right now. After a bumper crop in all areas in 1988, but especially in the grains and dry legumes (exports of nearly 300,000 tonnes of green and red lentils to India alone in 1988 made Turkey the largest exporter of pulses in the world), a frustratingly balmy winter and a long, dry spring now threaten Turkish farmers with such a down year that for the first time in recent memory, Turkey will be obliged to import cereal grains and other products.

"We have already lost 10 to 15 per cent of the wheat crop, and 50 per cent of the rice,"

'This is definitely going to be a painful year for farmers'

says Mr Ahmed Ozgunes, head of the Turkish Soil Products Office (TMO), the state agency that buys in many farm products. "This is definitely going to be a painful year for farmers." The gravity of the situation has taken many by surprise, although experts say the omens were evident as early as last December.

Last year'a wheat crop totalled 16m tonnes. This year's production will fall to 13.6m tonnes, if rain comes aoon. Already mucb of the southern Aegean and Mediterranean areas are facing serious drought, which will oecessitate up to one million tonnes of imported grains at a cost of more than $200m (£119m). With lost grain export revenues, the cost in cereals alone could be more than $400. Coupled with even greater losses in such critical areas as cooking oils, the total in lost revenues and obligatory purchases may run to more than $1bn.

Politically, the drought could be serious for the Government, which has watched its rural support slowly but surely waste away to the former premier Mr Suleyman Demirel and his True Path Party (TPP), the third largest opposition grouping.

Mr Lutfullah Kayalar, the new Minister of Agriculture who was appointed in a cabinet reshuffle following local elections in March, has been given the task of retrieving the rural vote. This appears to include an 80 per cent rise in the price of wheat by TMO to keep up with inflation, but also a 100 per cent payment on the delivery of the crop, unlike the staggered payment schedule last year.

"The drought could not have happened at a worse time for Ozal," a government official in agriculture notes. "Politically, we cannot let the price of wheat rise lest we lose the urban centres, but at the same time, trying to keep prices stable through imports is a sort of indirect taxation on the farmer."

As to urban demand, the Government has already started importing wheat from abroad, but not with the best results. "The first batch of imported wheat came in from Yugoslavia – a discount deal, but the millers wouldn't use it," says an Ankara-based American agronomist.

Happily, Turkey's credit is good, and it will be able to borrow from a variety of sources. The same is not true of other countries in the region also hit by the drought.

"Jordan is hurting bad," said an observer who shuttles between Turkey and Levantine Arab countries, "and Syria looks like a disaster. The difference here is that Turkey can get the credit to import, whereas Syria is up to its ears in bad debts."

The crucial question now, quite simply, is when it will rain.

"If we go through May with no serious precipitation, we stand the chance of losing the summer plants," another agronomist pointed out. "Already the groundwater is close to zero in some critical areas, and irrigation is stretched to the limits."

Thomas Goltz

BUSINESS GUIDE

ISTANBUL-Ankara-Izmir: it reads like a tourist's itinerary, but is equally likely to be a foreign business executive's schedule. Though expansion has slowed in recent years, there is still far more business traffic through Turkey's three main cities than there was before 1980.

Most foreign executives' entry point is Istanbul. Situated in the north-west corner of the country, astride the Bosporus Straits between Europe and Asia, it is the country's largest city, with a population of about 7m. With its colourful markets and skyline pierced by minarets, this ancient metropolis is a bustling hive of industry and commerce. Many of the world's airlines fly into Istanbul's Ataturk international airport, a 45-minute taxi drive from the city centre, costing around TL15,000 ($7).

There are numerous car hire companies, but taxis are probably more convenient in this congested city. Many cabbies, however, are fresh from rural areas, and almost as ignorant as the visitor about the city's layout: get clear directions first. It is also advisable to check the meter is on.

The Hilton International (tel: 1314646) and the Sheraton (tel: 1312121) in the central Taksim district, both with delightful Bosporus views and impeccable service, are still the most prestigious but pricey at around $170-200 per night.

At $150 a night, the restored Pera Palace Hotel (tel: 1514560) has more atmosphere, but fewer luxuries. The Yesil Ev and Aya Sofia Pansyon for $100 a night offer excellent accommodation in a series of restored Ottoman dwellings with period furnishings within a few steps of many of Istanbul's most famous sights, such as the Aya Sofia mosque, Topkapi palace, and the covered bazaar. Around Taksim smaller but equally conscientious establishments abound.

The choice of restaurants, from street cafes to grand salons, is huge. For business lunches, the restaurant of the Divan hotel, Parc Samdan, and Pandelli's in the spice market are recommended. There are appealing fish restaurants in the villages along the Bosporus's European shore, though these lost some of their charm with the construction of a motorway on stilts in the water in front of them.

Moving into the hinterland, state-owned Turkish Airlines (THY) provides fairly efficient connections with Ankara (40 mins), Izmir (55 mins), and other regional centres. For the traveller with time and a sense of adventure, an overnight sleeper train connects Istanbul with Ankara, a journey of 10 hours. There are also direct flights to Ankara's Esenboga international airport, via British Airways, Pan Am, Lufthansa, Air France, and Sabena, as well as THY.

Ankara, the seat of government since the inception of the Turkish republic in 1923, is a city of 3.5m people in the heart of the Anatolian plateau. There has been a concerted effort recently to keep pace with the needs of foreign business people. The Ankara Hilton (tel: 1682886), for example, opened last autumn to compete with the Etap Altinel (tel: 2317760) and the government-owned Buyuk Ankara (tel: 1256655). More modest are the Best and Metropole Hotels. Prices per night range down from $130. Taxis are plentiful and inexpensive, a ride across town TL2,500, or to the airport, 35 minutes away, TL20,000.

Ankara has a smattering of fair to good restaurants, among which are the RV, the Rihtim, the Washington, La Boheme, Sominne, Yahya, and for something different, the Japanese at the Etap Altinel.

Izmir, with a population of 2.5m on the Aegean coast, is Turkey's third largest city, a busy port, and has an important Nato base. Every year for a month from mid-August, Izmir plays host to foreign and Turkish companies exhibiting in nine trade fairs in the city's Kulturpark.

Hotel prices in Izmir vary enormously, from $120 per night at the Grand Ephesus Hotel to $58 at the Anba Hotel. Swiss Air and Lufthansa operate direct flights to the city's Adnan Menderes airport, 30 minutes from the city centre.

Generally, the business environment for the foreign visitor has improved tremendously in recent years – particularly in direct dial telecommunications. Mindful that many of their guests are in Turkey for business rather than pleasure, the top hotels offer a business centre and conference rooms.

Carolyn Batchelier

Jim Bodgener looks at the development of south-east Anatolia

Narrowing a national gap

GREEN fields of young wheat shoots under squalls of spring rain stretch away to the Syrian border from the ancient city walls of Harran in south-east Turkey. But although the soil there is among the most fertile in Turkey, a land of agricultural plenty, water scarcity restricts cropping to once a year.

This will change in about four years, when water starts flowing through twin 16-mile tunnels from the giant Ataturk dam to the north. On the crest of the embankment there, dumper trucks and bulldozers scorry like giant beetles, humping, pushing and flattening the clay core and rock walls that will start impounding the Euphrates next year, if all goes to schedule.

The two projects are the centrepieces of the vast south-east Anatolian developmeot programme, called Gap. In its first stage, through 13 distinct sub-projects costing an aggregate $12bn, Gap will attempt to transform 29,666 square miles of arid and semi-arid land – covering six provinces and 9.5 per cent of Turkey – into a bread basket for the country and its neighbours, as well as doubling Turkish cash and export crop production, particularly cottoo. Industry will play an important part too, ceotring on the city of Gaziantep.

The Ataturk dam is the largest of the Gap water projects, accounting for more than one third of energy output, and 40 per cent of irrigation. It will irrigate more than 1.72m acres, and will have a total capacity of 2,400MW in eight generating units, the first of which will come on-stream in 1991. Gap's total hydroelectric generating capacity, once all its 21 dams are complete, will be 7,561MW, increasing Turkey's present total generating capacity by around 70 per cent.

The Government is determined to shoulder the cost by itself, according to State Minister Mr Kamran Inan, who is responsible for improving the lot of 28 lesser developed regioos in Turkey, of which 21 lie in the east and south-east. Despite austerity measures in other sections of the economy, $1bn will be spent this year on the project. By the latest completion date of 2005, between $18bn and $21bn will have been speot. However, Gap has not complately escaped cuts, according to officials.

Finding the money for the basic work is going to hamstring Gap to some extent. The Ataturk dam, for example, this year will eat up TL550bo out of the TL2,158bn budgetary allocation to its executing authority, the State Hydraolics Agency (DSI). Agencies such as the World Bank are loath to get involved in the politics of damming a river flowing through three arid countries. For other parts of Gap, however, money has trickled through from World Bank-supported nstional development programmes, like agricultural extension and applied research.

Industries related to agriculture will probably predominate, given Gap's main thrust. The list includes textiles, fruit and vegetable processing and packaging, integrated livestock production, fertilisers (demand is expected to soar by around 100 per cent), machinery for textiles and agriculture, and construction materials, both for urban infrastructure and for housing.

Market opportunities will abound; the 4.5m population in the Gap area is expectad to exceed 10m by 1995, through a high birth and urbanisation rate, especially when Gap's benefits begin to stem the present migration towards the more developed west. Already, the city of Sanli Urfa is growing by 8 par cent a year, according to Mr Inan.

Such a scale of change poses problems for planning and co-ordination, with bottlenecks between construction, agricultural output, and manufacturing production. Not much consideration was given to Gap's sociological and environmental implications until about three years ago, and co-ordination has been hampered by the vertical hierarchical structure of most government departments.

A fair amount of detailed farming research has been carried out by institutions such as Cukurova University in Adana, backed up by its experience of a similar but much smaller World Bank-supported irrigation scheme on the Cukurova plains. There is also considerable experience in arid land and rain-fed farming at the 420,000-acre Ceylanpinar state farm backing on to the Syrian border.

Last year a macro-planning study was commissioned from Japanese consultants Nippon Koei with the local Yuksel consultancy group, and subsidiary studies on subjects such as land consolidation will follow. The study recommends the setting up of an umbrella body under tha State Planning Organisation (SPO) with full executive, horizontal responsibility to better co-ordinate research and project implementation.

One of the largest difficulties facing Gap will be reforming land holding. In remote districts it verges on the semi-feudal, with absentee landlords squeezing landless peasants. According to 1985 estimates, of the 326,000 rural families in the Gap region, around 38.4 per cent were landless, while 8 per cent owned 51 per cent of the agricultural land. The optimum farming intensity would be family holdings of between 2.7 acres and 12.3 acres – but it will require formidable powers to change matters, according to one Ankara diplomat. In other areas, nomadic life-styles hold hack modern livestock production.

The Gap project falls within a sensitive area. It contains a Kurdish population caught between the state security forces and attacks by separatist partisans of the Marxist Kurdish Workers' Party (PKK) infiltrating across the borders from neighbouring countries. Naturally, this has led to assumptions that Gap is primarily a government campaign to win over the hearts and minds of potential supporters of the PKK guerrillas.

Mr Inan sticks to the official government lina in stating that there can be no differentiation between Turkish citizens on the grounda of origin. Although Gap's main aim is to narrow the economic gap between tha underdeveloped south-east and the urbanising and industrialising west, Mr Inan admits that aradicating the causes of discontent and the opportunities for outside exploitation play an important subsidiary rola in the programme. Neighbouring powers jealous of Turkey's growiog economic strength are aiding the PKK, he says, without specifying who these powers are.

But despite Gap's proclaimed benefits for Turkey's neighbours, the programme seems set to exacerbate existing friction over the management of regional water. The only existing document covering regional water management is a 1946 Iraq-Turkey friendship agreement.

Water allocations are considered regularly by a ministerial-level technical committee from Turkey, Iraq and Syria, but the Iraqis are concerned at the amount of water provided for Syria by Turkey from the Euphrates.

In the end, Gap's fortunes will be dictated by the course of internal politics. It has been high on the agenda of both main parties in the last two elections, which means that progress, though slow and fitful, will probably continne in line with general economic recovery.

Rapid growth in traffic has led to an appalling accident record

Drive to repair battered roads

AS HE describes plans to refurbisb Turkey's roads, the deputy director-general of highways pulls from tbe papers on his desk a set of blsck-and-white snapshots of the M1 motorway in the UK, circa 1962. They show a pristine, deserted stretch of carriageway. "I took tbese at 90mph in a Ford Cortina," says Mr Nurhan Karahan a touch ruefully.

The pictures might make British motorists weep with nostalgia. To the man who is helping to bring Turkey's battered roads into the 20th century, they seemed to represent a glorious age of innocence.

Motorways make up only 125km of Turkey's 60,000km rosd network. And although 1,000km of four-lane motorway should be finished by 1991, none of it will remain pristine and deserted for long. "The increase in traffic here is more than expected," says Mr Karahan, "even when yon expect it to be more than expected."

The feasibility study for the first Bosporus bridge, built in the early 1970s by the Cleveland Bridge and Engineering of Darlington, UK, estimated it would reach capacity of 140,000 vehicle crossings a day by 1995. Instead the figure was reached in 1980.

Turkey's 55m people own only 3m cars, yet traffic volumes are rising at an average 8 per cent a year on roads never designed to cope. One consequence is an appalling road safety record – an average of one road accident death and 10 injuries every 50 minutes.

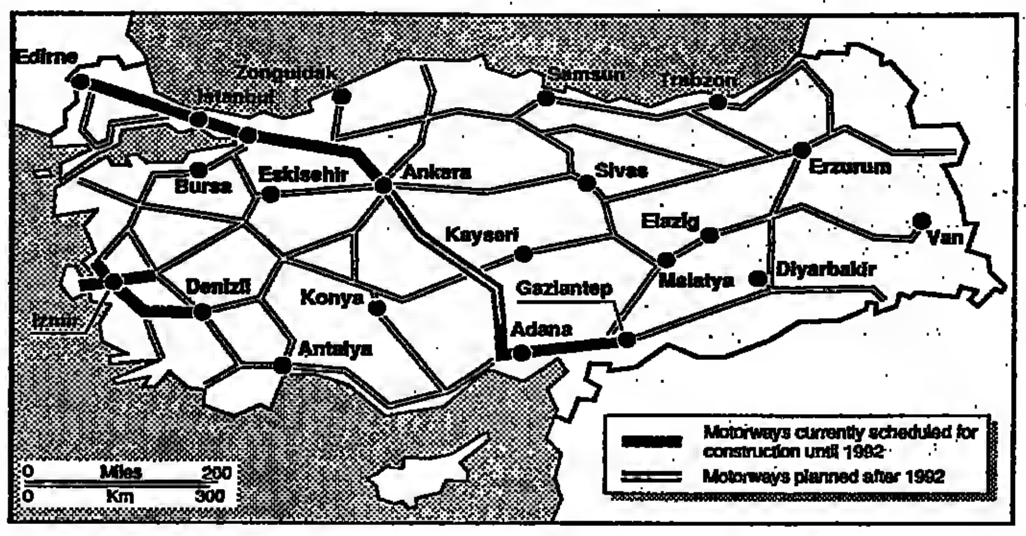
Until the 1950s, 96 per cent of Turkey's roads were simply stabilised earth, and most of today's 47,000km of metalled highway was built with Marsball Plan and World Bank money in the 1950s and 1960s.

With about 80 per cent of Turkey's freight carried by road, more than balf of traffic is heavy goods vehicles (the European average is between 8-10 per cent) and trucks with axle weights approaching 20 tonnes were not in the brief of the engineers who built the single-lane highways.

Turkey's roads have therefore long needed an overhaul, and Mr Turgut Ozal made this a priority when he became prime minister in 1983. By the end of his first term in 1987, seven big motorway contracts had been awarded to local and overseas contractors and work had begun on upgrading about 13,000km of Turkey's highways.

Much of the programme, however, may well be compromised by a combination of delays, cost overruns and rises in traffic.

The sbowpiece project is construction of an 800km toll motorway from Edrine on the Bulgarian border to Ankara in central Anatolia. The project is split among five consortia of Turkish and foreign companies at an overall contracted cost of $1.9bn (£1.1bn). It embraces building a second bridge over the Bosporus and ring roads around both Istanbul and Ankara.



The first contract, an $887m deal to build the second Bosporus bridge and 217km of adjoining motorway, was awarded in 1985 to a consortium including Japanese groups Nippon Kokei, Mitsubishi Heavy Industries, IHI and Impregilo, an Italian joint venture group. Bot while the 1,090 metre suspension bridge has been finished for almost a year, delays on the motorway have pushed the project's completion date back two years to 1992.

Problems have arisen because since the design briefs were prepared in the 1970s, settlements have sprung up in areas the constrnctors assumed would be clear. Road surfaces have also been thickened to allow for a recent rise in the permitted axle weight to 30 tonnes.

But such problems also highlight a weakness in the government's approach to tendering for the rest of the trans-Anatolian project which suggests that delays and cost overruns may have in effect been built into the other stretches of the motorway.

When the government tendered in the early 1980s for the second Bosporus bridge, it noted the lowest bids offered by the seven competitors for the motorway section of the project and used them as a yardstick for costing the remainder of the motorway project. This gave a figure of between $1.5m and $2m per kilometre of rosd, well below average European costs.

The low cost did not deter bidders. But as work has begun, contractors facing unforeseen problems are entering large claims for cost overruns.

Such is the case on the stretch of motorway between Gerede and Ankara, being built jointly by Enka of Turkey and West German group Bechtel. Forced route changes and difficulties with the terrain will lead to a delay of at least a year and claims for substantially more than the contracted $480m, according to groups working on the project.

Similar problems on the southern Tarsus to Gaziantep stretch have also led to predictions that it will cost at least double the contracted $360m.

"Such important contracts should never have been based on previous tendering practices or previous road conditions," says a consultant to part of the project. "Contracts, particularly for roads, depend on the local road, soil and climate conditions. Tender prices for the Bosporus bridge and connected roads are not similar to Anatolian conditions; this is the basic mistake."

Nevertheless, aven critics agree that the roads will eventually be completed. Moreover, Mr Karahan says he is confident that rising traffic volumes mean the toll motorways could pay for themselves within the 10-15 year grace period on credits funding most of the project.

In this respect, the future for Turkey's roads looks brighter than that of its rail network. The showpiece project here, a high-speed link between Istanbul and Ankara, has been frozen after several years of tepid interest from potential foreign contractors.

The link was to have been built on the build-owner-transfer system at an estimated project cost of between $1.5bn and $2bn. A feasibility study by Japanese Rail Technical Services concluded, though, that it would offer a return of only about 6 per cent and prove uneconomic unless it was brought within a government transport policy of making fares compete with cheap road and air routes. The 40-minute flight from Ankara to Istanbul, for instance, costs less than $60.

Elsewhere, however, work is going ahead on electrifying the main east-west lines on Turkey's 10,400km network. The state-owned Indian group Ircon reports satisfactory progress on its $23m contract to electrify the Eskishehir to Ankara line, and a French consortium has begun work on a $76m deal to electrify the line between the steel town of Iskenderun and Divrigi in central Anatolia.

But the railways are feeling the pinch of government spending cuts more acutely than the highway department. The squeeze is the tighter, moreover, since the rail system is ostensibly being groomed for privatisation.

The government hopes its railways can be running at an operating profit by 1994. But Mr Bircan Erdal, general director of railways, acknowledges this is a stiff target, with revenues at present covering only half of costs. The government is also unwilling to allow fares to rise while it is waging a battle against inflation.

Mr Erdal takes some cheer in a more glorious past. The railway directorate is refurbishing a series of 100-year-old steam engines for tourists. "They are very popular with the English," he says.

Mark Nicholson